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DP/STR/SAG(2)/5
12 April 1979

ORIGINAL: ENGLISH

ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Second Meeting of the South Asia Group of Consultants in connexion with the Implementation of ESCAP Resolution 180 (XXXIV): Strategies for the 1980s

23 April-4 May 1979
Bangkok

NEPAL'S ECONOMY IN THE 1980s*

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PART I

ECONOMIC PLANS AND ECONOMIC PLANNING

Nepal is a small landlocked Hindu kingdom sandwiched between two Asian giants - India and China. The total population of the country is 13.4 million and it is increasing at an annual rate of 2.02 per cent.[1/] Life expectancy at birth is 48 years.[2/] Slightly over 93 per cent of people earn their livelihood from land.[3/] Agriculture including forestry contributes about two third to GDP.[4/] Raw agricultural and forest products, mainly rice, timber, butter, fat are the main commodities that are exported primarily to India.[5/] About 19 per cent of the population is literate.

The total area of Nepal is 54,718 sq miles. Most of the country consists of rugged mountains, hills and valleys. A small strip extending nearly all the way from the east to the west consists of flat land which is a part of the great Indo-Gangetic plain. The area suitable for agriculture is estimated to be only 14 per cent of the total land area.[6/] The country is generally poor in resources except hydro-potential which is estimated at 83,000 megawatts.[7/]

Geographically the country is divided into three main regions, namely the mountain, the hill and the Terai. The mountain region has 4.86 per cent of the total cultivated land and 9.86 per cent of the population.[8/] It is virtually a paradise for naturalists and mountain climbers.

The middle hill region has 30.36 per cent of the total land area. But it houses 52.53 per cent of the nation's population.[9/] Agriculture is intensive wherever water is available and output per acre of land is relatively higher than in other regions but labour productivity remains low because of the high man/land ratio.

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1/ Yadav S. Thapa "Population problem: how serious its for Nepal", The Rising Nepal. Also see The Analysis of the Population Statistics of Nepal, Central Bureau of Statistics, National Planning Commission, Kathmandu, Nepal.

2/ Yadav S. Thapa, ibid.

3/ The Fifth Plan, National Planning Commission 1975, p. 46.

4/ Statistical Pocket Book: Nepal, Central Bureau of Statistics, 1974.

5/ Statistical Pocket Book, ibid.

6/ Agricultural Statisties of Nepal, His Majesty's Government, 1968.

7/ Hydro-Power Potentiality of Nepal, Department of Electricity, Ministry of Water and Power, His Majesty's Government, 1971.

8/ See B.P. Dhital, "Population growth and agriculture" in Population Growth and Development in Nepal, CEDA, 1975.

9/ Dhital, ibid.

The Terai is the granery of Nepal. Most of the land in this region is flat and the soil is productive. Out of the total cultivable land in the nation the Terai alone provides 64.78 per cent but its share of the population is only 36.67 per cent.[10/] Cultivation is therefore less intensive relative to hills. Labour productivity is higher than in the hills but in relative terms productivity of land is low.

Up until 1950 Nepal was ruled by a family autocracy, known as the Rana oligarchy, operating in the name of the king who was virtually kept as a prisoner.[11/] The main interest of the Rana system was to remain in power and to use it for the maximum exploitation of the masses for family benefit. For this purpose an administrative structure manned primarily by the Rana Prime Minister's own circle of household favourites was established. The objective of this bureaucracy was to maintain law and order and to collect the maximum possible revenue under the given constraints of a primitive technology and a feudal social structure. For fear of social mobilization, education was virtually banned and new technology discouraged. Orthodox practices of Hinduism were reinforced continuously in the name of religion and artificial barriers dividing different communities were strengthened.

Political change, both in China and India, however, meant that Nepal could no longer be kept isolated from the main intellectual currents of the Third World. The Rana rulers, tried to deal with the situation by force. They rejected demand for political freedom and economic justice and were unwilling to yield anything except on their own terms which virtually meant the continuation of the statusquo. Thus the setting for a struggle between autocracy that sustained itself with the moral support of the colonial power in India and the liberal democratic elements was ready. The resolution of the conflict was swift, lasting only a few months and somewhat of an anti-climax. Once the British left India, the Rana rulers were virtually demoralized and were ready to compromise with the political forces inspired by the King. In this compromise, ironically, the Rana ruler against whose autocracy the whole armed struggle had started became the first prime minister of democratic Nepal in February 1951.

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10/ Dhital, ibid.

11/ For an excellent discussion on the rise of the Rana family in Nepal, see Ludwig F. Stiller S.J., The Silent Cry: The People of Nepal, 1816-1839, Sahayogi Prakashan, 1976. For a historical perspective on the exploitation of Nepali farmers, see Mahesh Chandra Regmi, A Study on Nepali Economic History 1768-1846, Manju Sri Publication, 1971.

The new rulers after 1951 were eager to project themselves as the champion of the poor, the downtrodden and the oppressed. As far as speech making was concerned all this was fine and easy. But the difficulties that would be involved in designing and implimenting a package of policies for imparting a sense of material well being, dignity and honour to the oppressed in a feudal society where literacy was less than one per cent was never considered seriously. Somehow, the advent of democracy was expected to solve everything. In fact, it solved hardly anything since the vast majority of the people under a tradition bound feudal structure were virtually unaffected by the change in the political set-up of the country. The revolution in 1951 was, therefore, neither a social nor an economic revolution; it was at best a political change that was more impressive in its explicit form than its implicit content.

During the early years of 1950s the new intellectuals and political elites residing primarily in towns and now feeling liberated lost no opportunity in engaging in cut-throat political fighting for the new position of power and privilege previously enjoyed by the Ranas. There was much talk of democracy but very little comprehension of the kind of difficulties inherent in the process of introducing change and dynamism in a feudal society. Thus half baked ideas regarding social and economic change floated with remarkable freedom and often Gresham's law was found to operate successfully when it came to proposals that tried to change properly relations in land.[12/] This process, was further strengthened by the very structure of the "revolution" which was more than generous and had therefore, left the social structure pretty much untouched. The Rana elites & Rana connected families, labled by one author as "Client families"[13/] after they were overthrown, had now turned themselves into secure but disgruntled non-functional elites determined to keep their social & economic position in the new set-up. In the mean time the population of the country was growing at the rate of 1.4 per cent with a higher rate promised for the future. Lastly the nation, then was probably below a "minimum cultural base"[14/] since there was an acute scarcity of trained personnel in all areas of

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12/ For the political drama of confusion during this period see Grishma Bahadur Devkota, Nepal Ko Rajraitik Itihas (Political Profile of Nepal), Ratna Pustak Bhandar.

13/ Pasupati S.J.B. Rana, "Towards a policy of national integration", Vasudha.

14/ John Kenneth Galbraith, Economic Peace and Laughter, New American Library, Inc.

social and economic life of the nation. Given these facts, when the Nepali march towards development started in 1951 it was a country with a rising population and precious little infrastructural base to sustain development except a resentful non-functional elite trying to keep its pre-revolution hold on the social and economic life of the nation. Some quantitative aspect of this reality is given in table 1.

Table 1 reveals that Nepal, after she attained "democracy" in 1951 was basically a subsistence, and feudal economy with virtually no modern means of transport communication and other physical, social and institutional infrastructure necessary for economic development. Worse still, the new political elites had no idea of the magnitude of the task involved. Thus, the period between 1951 and 1956 - the later being the year when the First Five Year Plan of the country was launched, were spent primarily in trying to evolve a formula that would do some justice to the spirit of the revolution while at the same time preserve the interest of the non-functional elites of the Rana days who were now happily adopted by the new democracy. The resulting anomaly brought much confusion in developing clarity regarding the structure of means and end necessary for social and economic development of the country. As far as political rhetoric went, it was humanistic and claimed to derive its strength from the masses. But trying to initiate economic and social change in a feudal and subsistence economy naturally creates opposition and in Nepal's case the strength of the non-functional elites assured this possibility of turning into a reality. How is one to deal with this problem? Furthermore when attempts are made to change the material life in a society, can the existing institutions undertake this burden? If new institutions are to be created, can they achieve functional efficiency while the emerging contradictions in the society are ignored? Questions like these were not raised by politicians because it did not seem to have immediate relevance in the immediate struggle for political power. The sum total of this style was reflected in the First Five Year Plan of the country launched in 1955. It remained committed to the masses but remained short of outlining specific policy measures that would set the guideline for a concrete programme of social change. What was lacking was the ability on the part of the politicians to conceptualize underdevelopment so as to be able to evolve a philosophy necessary for its transformation over time.

/Table 1

Table 1. Infrastructural base of Nepal in early 1950s

Year	Particular	Remarks
	A. Transport, communication and power	
1956	(1) Power	6,280 Kw of which 2,077 Kw was hydel power
1956	(2) Roads	162 miles of metalled road 224 miles of fair weather road (.050 Km per 1,000 population)
	(3) Airport	360 miles of airway with about half a dozen airport
	(4) Post office	107 post office or 1 for every 85,000 people
	(5) Railways	51 miles of narrow gauge railway
	(6) Telephone	335 lines with 25 automatic ones
	B. Education	
1951	(1) Primary school	321 (8,505 students, 9 per cent of primary school going children)
	(2) Secondary school	11
	(3) Colleges	2
	C. Health	
1956	Doctors	50
	Hospital bed	649
	D. Agriculture	
1956	Chemical fertilizer	Unknown
	Land holding system	(a) Insecurity of tenure (b) Arbitrary fixation of rent (c) Absentee landlordism (d) Inequality in distribution
	Irrigation	50,000 acres under irrigation from large irrigation works
	Credit finance	No institutional credit for agriculture

/Table 1 (continued)

Table 1 (continued)

Year	Particular	Remarks
	E. Financial institution	
	1. Nepal Bank Ltd.	Nation's first commercial bank established in 1936 and engaged primarily in financing trade with India
	2. Currency system	Dual currency system, with an overwhelming preponderance of Indian currency in circulation
	F. National accounts	
	National income data	Not available
	Demography and occupational structure	
	1. Population	8.4 million
	2. Growth rate of population	1.4 per cent as per 1951-1961 census
	3. People engaged in agriculture	93.4 per cent
	4. People engaged in industry	2.2 per cent
	5. People engaged in services	4.4 per cent
	G. Public finance	
1952/53	1. Total revenue	Rs 49.63 millions
	(a) Indirect tax	Rs 12.37 (24 per cent)
	(b) Direct tax	Rs 1.03 (.02 per cent)
	(c) Land revenue	Rs 14.48 (29 per cent)
	(d) Forest	Rs 4.06 (8 per cent)
	(e) Miscellaneous	Rs 17.69 (35 per cent)

/Table 1 (continued)

Table 1 (continued)

Year	Particular	Remarks
	2. Total expenditure	Rs 56.43
	(a) Economic services	Rs 11.98 (21 per cent)
	(b) Social services	Rs 3.96 (7 per cent)
	(c) Defence	Rs 16.90 (29 per cent)
	(d) Administration	Rs 9.68 (17.98 per cent)

Sources: 1. Badri Prasad Shrestha, An Introduction to Nepali Economy, Nepal Press 1962; 2. Draft outline of the First Five Year Plan, 1959; 3. Agricultural Statistics of Nepal, His Majesty's Government of Nepal, 1972; 4. National Education Plan, Ministry of Education, His Majesty's Government of Nepal, 1971; 5. Bhawani Dhungana, Narendra Kayastha and Bal Pd. Rai, An Analysis of Tax Structure of Nepal, CEDA, December 1976.

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The First Plan

The First Plan was prepared without any economic or social data. The quantitative dimension of the country's social and economic reality was not known to the planners or the government. A rudimentary structure of public finance that until then was not even aware of income taxes was the only planning data available on a macro-scale. On the micro-scale project planning was virtually unknown. Under these constraints it is indeed remarkable that the government was even able to publish a small booklet and call it the First Plan.

The total resources considered necessary for the First Plan was Rs 334 million. Its sectoral allocation was as follows:

Table 2. Allocation of expenditure in the First Plan of Nepal
(Rs in million)

	Planned Outlay	Percentage
1. Village development	42.5	12.9
2. Agriculture and forestry	32.0	9.7
3. Transport, communication and construction	124.0	37.6
4. Power	30.0	9.1
5. Industry and minerals	25.0	7.6
6. Health	25.0	7.6
7. Education	19.0	5.7
8. Irrigation and drinking water	20.0	6.0
9. Survey research and statistics	12.5	3.8
	334.00	100

Source: Badri Prasad Shrestha, op.cit., p. 243 and The First Five Year Plan, His Majesty's Government of Nepal, 1955.

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The First Five Year Plan of the country remained committed to the masses but stopped short of outlining specific policy measures that would set the guidelines for a concrete programme of social change. Even when some physical targets were fixed they were based more on useful thinking than on an assessment of needed political and economic resources.

Despite a lack of clarification in many areas of Planning, the resource allocation scheme of the First Plan was not out of line with Nepal's requirements.

The general orientation to infrastructure development was in line with the country's requirements. Similarly allocation of resources under village development outlined a concern for the poor in the rural area even though the dimension of such poverty and its related socio-economic variables were little understood. The data on targets and achievements of the plan is as follows:

Table 3. Selected plan targets and their achievements

	Unit (1)	Plan target (2)	Target achieved (3)	Col.(3) as percentage of Col. (4)
1. Power	Kw	20,000	750	3.7
2. Highway	mile	900	380	42.2
3. Railway	mile	54	-	-
4. Ropeway	mile	28	-	-
5. Irrigation	hec.	275,000	65,200	23.7
6. Hospital bed		240	105	43.7
7. Co-operative society		4,500	378	8.1
8. Agriculture farms		18	8	44.4
9. Livestock centres		7	4	57.1
10. Village development centres		480	380	79.2
11. Health assistants and nurse training		190	97	51.0
12. Primary middle and high school		766	2,165	282.6

Source: The Three Year Plan, His Majesty's Government of Nepal, 1962.

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As regards resource mobilization, a heavy reliance was placed on foreign grants and loan. As much as 71 per cent of funds were to come from foreign source. In actual implementation as much as 94 per cent of investment resources had to be financed from foreign source in the fourth year of the plan. The concept that development after all must involve sacrifice on the part of the present generation and specially from those who are better off in the social and economic ladder was felt only in speeches. The political will to put these concepts into practice was simply lacking. Moreover, there was also an acute scarcity of trained personnel who could conceive and run new organizations necessary for resource mobilization.

Viewed in terms of target and performance the plan was not much of a success. Part of the reason for such a big gap in target and achievement was the lack of sound well formulated projects that could be implemented during the planning period. The plan itself had identified very few specific projects to be carried out during the planning period. Most of the discussion was general in nature and was an expression of new aspiration rather than a concrete programme of action. Notwithstanding this fact and the many weaknesses apparent in the plan in both technical and conceptual issues, it was significant in two ways. First, it formalized the commitment to social and economic development of the society. The concrete manifestation of this was the plan itself. In this sense, it provided a basis on which it would be easy to strengthen the process of planning and development in the future. Second, the First Plan, though unclear in many policy issues was a landmark in the sense that it devoted a whole chapter on "village development" and pointed the need for making the villages as the focus of developmental activities. Its resulting policy implication was not properly appreciated by planners themselves since progress in the establishment of new institutions relevant for this purpose was tardy and slow. This is obvious from the target - achievement gap noticed above.

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The Second Three-Year Plan

In 1960, the political system of Nepal changed. For two years, planning was suspended. The new government under King Mahendra was then too busy in meeting the challenges of its political oppositions to think seriously on planning. On the other hand, the new regime despite the legitimacy provided by the leadership of the crown had to prove that it is dedicated to the welfare of the people and is free from many vices of the previous rule. The royal takeover in 1960 was justified on the ground that previous government was corrupt and indifferent to national needs and aspirations. Thus a new plan was just around the corner and in 1962 the Second Plan that was of three years duration was launched. The logic of the Second Plan being reduced to only three years does not seem to have been the result of any break through in Nepali planning. It was instead, an unusual display of people's habit to follow what is currently in vogue. Ever since the Soviets started their planning for five years, instead of six or eight this odd number seems to have acquired a mystical attachment with planners. Thus any decent plan worth its name ought to be for five years and two years being already lost, what could the planners in Nepal do except to look ahead only for three years.

The new regime had to prove that it is more committed to the people than the previous regime; that it understands the Nepali society better; that it is more capable, efficient and honest and that the change in political style is not a reflection of the desire to monopolize power but a genuine responsibility undertaken as a historical necessity for the preservation of Nepali independence and the welfare of the masses. This is, inspite of the fact that most of the powerholders of the previous regime were once again at the helm of the new regime. But in the context of Nepali politics these were minor anomalies only to be observed with quite humour and not to be mentioned. What counted now was what the government was trying to do and for this there was the Three Year Plan.

The Three Year Plan, as it was being launched by a government that was still struggling with its opponents, was radical in tone. It pointed out the necessity of bringing a new social and economic structure in the country - the political structure having being already changed for the new society.

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The Three Year Plan like the First Five Year Plan was prepared without the advantage of having access to national income statistics of the country. It was also basically a collection of projects like the First Plan. But it was an improvement over the First Plan because data on specific projects were richer.

The prime objective of the plan was economic development which was meant to mean an increase in the output of agricultural and industry. The other objectives were economic stability, employment generation and a just social order. Mentioning employment generation as one of the main objective of planning assumes significance since it was omitted in the Third and the Fourth Plan of the nation. In terms of priority the Second Plan identified agriculture as its number one concern.

The total size of the plan was Rs 670 million. Sectoral allocation were as follows:

Table 4. Allocation of resources under the Second Plan

(Rs in million)

1.	Agriculture (including land reform administration and agricultural credit)	114.1
2.	Transport, communication and power	234.5
3.	Industry (including cottage industry and tourism)	152.0
4.	Social/Services	102.7
5.	Institutional reform and development	66.7
	Rs	670.0

Source: The Three Year Plan, His Majesty's Government of Nepal, 1962.

/The

The table above points out that despite assigning number one priority to agriculture, large chunk of resource was claimed by the transport, communication and the power sector. As, for the sources of finance, Rs 560 million was to be obtained from foreign aid (grants: 500 million and loan Rs 60 million). The rest was to come from the budget surplus (Rs 100 million) and local resources (Rs 10 million).

In terms of resource mobilization, the second Five Year Plan shows innovation. First, income tax collection started in Nepal from 1962/1963, the first year yielding a sum of Rs 2 million. Second, the government also started its experiment with raising internal loans for financing development.

The target-achievement record of the Second Plan is as follows:

Table 5. Achievements of the Three Year Plan

	1961/1962	Incrimental output planned	Achievement
Agriculture			
Food grain ('000 tons)	3,145,000	36,734	126,000
Sugar cane	93		
Tobacco	9		
Jute	34		
Oil seed	48		
Industry			
Cement (ton)	-	50,000	-
Sugar (ton)	11,786	30,000	-4,591
Jute (ton)	15,150	3,925	8,600
Cigarettes (lakh stick)	2,483	320,000	1,654
Resin and turpentine	-	20,000	-
Irrigation (acres)	-	116,000	40,628
Power (kw)	-	22,800	7,600
Roads (all kind, Km)		1,440	1,220 (mostly fair weather)
Afforestations (hec)		10,000	2,454
Airports (small)		20	3
Health center		10	8
Hospitals		3	3

Source: The Three Year Plan, His Majesty's Government of Nepal, 1962. The Third Five Year Plan, His Majesty's Government of Nepal, 1965.

/The

The table above presents some interesting facts. First, if we are to take agriculture development plan seriously, total incrimental food grain output planned was a mere 36,734 tons which comes to an average annual increase of about one-third of 1 per cent every year. It is hard to see how the country could aim at economic and social development with agricultural output and population increasing at 0.38 and 2.0 per cent respectively. Planning, of course, is no guarantee against nonsense or absurdity, and the agricultural output target of the Second Plan seems to prove this point.

In the industrial and other sectors, a look at table 5 reveals an inability on the part of the planners to comprehend the administrative, managerial and resource implications of the specified targets. Sugar output, for example, was expected to increase by 30,000 tons; after the three year plan it decreased by 4,591 tons. Similarly, in most other sectors, the gap between target and achievement remains glaring.

The apparent absurdity observed in target fixing observed in the second plan is hard to explain. Part of the reason for over ambitious projects, probably could be traced to the desire of the new regime to show its opponents that its capacity for speeding development is higher than the previous regime. But, this logic does not explain the ridiculously low target of increasing agricultural output by about one-third of one per cent every year. Apparently, the conclusion is that the planning of planning itself was very poor.

During the Second Three Year Plan the government took major step in changing properly relation in land. A land reform programme was introduced and its concrete manifestation was the Land Act (1964). We will discuss this issue in the coming sections of this report.

As for employment, the Second Plan was basically limited to mentioning it as one of the objectives of the plan. The basic assumption seems that once the planned projects are undertaken employment would take care of itself. The idea of specifying sectoral investment strategies that would maximize employment was completely absent. Naturally any policy on technological choice was also lacking in the Plan.

/The

The Third Plan

The Third Five Year Plan started in 1965, within the framework of an objective of doubling national income in the next fifteen years. The national income of the country as of 1965 was of course not known and it is no where given in the Plan document. So the objective of doubling national income, could not have had much operational significance. It may have been had economics but it was good politics. However, by 1964/1965 the country's rudimentary statistical system had calculated the gross domestic product to be Rs 5,602 million. This data was apparently used as a basis for setting the 15 year target. The difference between gross domestic product and national income, on the other hand, does not seem to have been considered significant.

Within the 15 year framework of doubling national income, the Third Plan aimed at a growth rate 3.8 per cent and an increase in per capita income of 1.8 per cent. The total investment outlay of the plan was Rs 2,500 million. The expected increase in output was to the tune of Rs 1,138 million. Thus, the incremental capital/output ratio assumed in the plan was 2.2.

Out of the Planned investment of Rs 2,500 million, the private sector and the Panchayat sector were expected to contribute Rs 520 and Rs 280 million respectively.[15/] The remaining balance was to be financed by the government.

The plan accorded highest priority to investments in agriculture, particularly an increase in grain productions followed by institutional reforms in agriculture, and investments in transportation and power and industry.[16/] However, in terms of actual investment allocation a different picture emerges as indicated in table 6.

/Table 6

15/ In Nepal the Panchayat system, introduced by late King Mahendra in early 1960s after he dissolved the parliament and took power in his own hands provides the basis for a "partyless democracy" under the active leadership of the crown. Thus electoral representatives of the village Panchayat (i.e. village council) become voters for the district Panchayat. The district Panchayats in turn elect representatives to the National Panchayat which is the highest legislative body of the nation. In Nepal's planning, village and district Panchayats have been viewed as agencies responsible for local resource mobilization for local level development. Thus, there has emerged the concept of the Panchayat sector as a distinct entity in resource mobilization.

16/ Discussing priorities the Plan states ".... In the light of these considerations the highest priority has been given to agricultural development", the Third Plan (1965-1970), His Majesty's Government of Nepal, p. 17.

Table 6. Allocation of public sector expenditure
(Rs in million)

Transport, communication and power	875.0	50.3
Agriculture and village development	377.5	21.7
Industry	125.0	7.2
Social service	292.5	16.8
Miscellaneous	70.0	4.0
	1,740.0	100

Source: The Third Plan (1965-1970), His Majesty's Government of Nepal, p. 17.

Indeed, as the table above indicates, the gap between target and achievement seems to start with the planning document itself. Inflation, on the other hand, had not up till then figured in Nepali planning. Resource allocation and project estimates were based on 1964/1965 prices. The possibility that inflation would inflate project costs and therefore the required outlay was not explicitly considered. The problem of inflation had to wait until the Fourth Plan get some recognition. This omission, may seem rather short sighted. On the other hand, progress in planning that did occur over the years must not be neglected. If the First Plan was a written commitment to planning without any clear identification of projects, the Second Plan did begin to identify specific projects to be undertaken. In the Third Plan, an estimate of GDP was provided and so the planners could now talk of the rate of growth in national income. In this sequence inflation naturally had to wait until the Fourth Plan to get its turn.

The financing scheme of the plan was as follows:

/Table 7.

Table 7. Financing of the Third Plan
(Rs in million)

Surplus under regular budget	550.0
Foreign aid	1,050.0
Internal loan	50.0
External loans	200.0
Panchayats	200.0
Private sector	350.0
Deficit financing	100.0
	2,500.0

Source: The Third Plan, His Majesty's Government of Nepal, 1965, p. 34.

Compared with the Second Plan, the Third Plan was definitely more ambitious in terms of internal resource mobilization. As much as 50 per cent of total plan investments were now to be financed from internal sources.

The target - achievement gap

In terms of spending the Third Plan was a success. The public sector spending under the plan was Rs 1,740.0 million while actual spending was Rs 1,779.0 million. But the physical target - achievement gap was wide. It reflected not only inflation but also an inability to take the plan seriously for implementation.

In agriculture the target - achievement gap in production was as follows:

/Table 8

Table 8. Area production yield and growth rate for major crops (3rd Plan)

Item	1964/65 a/	1969/70 b/	Per cent increase (actual)	Per cent increase Plan target c/
Paddy:				
Area	1,101 d/	1,173		
Production	2,201 e/	2,241	1.8	7.5
Yield	2.0 f/	1.91		
Maize:				
Area	437	432		
Production	854	794	-7	7.5
Yield	1.85	1.83		
Wheat:				
Area	100	249		
Production	126	289	229	179.5
Yield	1.26	1.16		
Barley and Millet:				
Area	120	111		
Production	89	124	39	34.0
Yield	.74	1.11		
Sugarcane:				
Area	9	13		
Production	126	215	70	100
Yield	14.0	16.5		
Jute:				
Area	32	51		
Production	39	49	25	40
Yield	1.22	.96		
Oilseed:				
Area	108	103		
Production	51	56	9	19
Yield	47	.54		
Tobacco:				
Area	8	8		
Production	9	6	-33	150
Yield	1.1	.75		

Notes: a/ Agricultural Statistics of Nepal, His Majesty's Government 1972, pp.19.
b/ Evaluation of the 4th Plan, National Planning Commission, p. 10.
c/ The Third Plan, National Planning Commission, Kathmandu, 1965, pp. 54 and 55.
d/ Area in '000 ha.
e/ Production in '000 metric ton.
f/ Yield in metric ton/ha.

/Table 8

Table 8 indicates three things. First, targets in agriculture were not achieved. Second whatever increase in production that took place was largely because of increase in new land under plough which was not planned. This conclusion, however, does not apply to wheat. Increase in wheat average was because farmers were now eagerly cultivating it as a winter crop. Third, increase in output, seldom meant an increase in the productivity of land. In most crops yield per hectare has remained stagnant or showed a negative trend.

A partial explanation of the state of agriculture is to be found in the failure of the government to supply inputs as planned. For example during the first four years of the plan, area under improved seed and irrigation was only 13 per cent and 39.9 per cent of the target. Similarly fertilizer consumption was 17 per cent of the target.[17/]

The performance of the industrial sector in the Third Plan was disappointing. The table below presents the relevant statistics:

Table 9. Output of industries as reported in the economic survey

Product	Unit	Base year 1964/1965	Third plan target	Actual achievement
Jute	Ton	17,325	30,000	15,000
Sugar	"	9,912	43,000	24,000
Cement	"	-	60,000	-
Paper	"	-	15,000	-
Paint and varnish	"	-	1,000	-
Soap	"	-	23,000	300
Cotton textiles	(meters)	-	18 million	-
Brewery	(litres)	-	1.1 million	under construction cap. 6 mil.
Shoe	(pairs)	29,838	-	60,000

/Table 9 (continued)

17/ The Fourth Plan, His Majesty's Goverament of Nepal, 1970.

Table 9 (continued)

Product	Unit	Base year 1964/1965	Third plan target	Actual achievement
Processed leather	(ton)	56.9	-	160.0
Cigarettes	(thousands)	635,964	-	2,000,000
Matches	(gross)	564,595	-	500,000
Stainless steel utensil	(ton)	232	-	7,250.0
Liquor	(gallon)	30,564	-	52,747
Industrial estates	(No.)	3	8	3

Source: Fourth Plan 1970-1975, p. 193.

The table above indicates not only the gap between plan and targets but the very futility of planning itself. Most of the new import substitution industries were not opened. Jute output which was the largest foreign exchange earner of the nation declined within the plan period. But a few industries that produced stainless steel based on entirely imported raw material flourished beyond the wildest expectation. Since there was a ban on imports of stainless steel items in India, traders used Nepal to take advantage of the Indian market. This was achieved in two stages. First raw materials far in excess of Nepal's requirement were imported. Second, the imported stainless steel sheets were turned into various utensil with negligible value added and then exported to India as goods of Nepali origin. The government in Nepal somehow seems to have turned a blind eye towards this emerging trade pattern though it was totally against the priorities of industrial development set out in the plan. The Plan gave highest priority to industries based on local raw material. But this priority was flouted and so was the whole industrial development plan.

The country did have an industrial policy in the Third Plan, but it did not work. A new interest group associated with trade and involved in taking advantage of open border between Nepal and India was gradually

/emerging

emerging and it was able to use the governmental machinery for its own end quite successfully. Briefly, in 1964, the government announced an export bonus scheme, under which traders who exported to hard currency countries could use part of their earnings for importing raw materials and consumptions goods to be used in Nepal. This provision was misutilized by the trading community. They imported goods and raw materials that could be sold profitably in India rather than in Nepal. Thus, large quantities of stainless steel sheets were imported and made into various utensils to be exported to India legally as goods of Nepal origin. If this was the legal route, illegal route was also followed when luxury goods far in excess of Nepal's requirement found their way inside Nepal presumably within an eye to the flourishing underground market for foreign goods in India. Thus stainless steel factories grew like mushroom and soon objection from the Indian side led to quantitative restriction of the export of stainless steel utensils from Nepal. Most factories, then were closed by the end of 1970.[18/]

Besides stainless steel factories, another growth sector in Nepal based on a more sound and rational economic footing has been tourism. Between 1962 and 1970 the number of tourists coming to Nepal increased from 6,179 to 45,970.[19/] During the same period the government's earning of convertible foreign exchange from tourism increased from a mere .6 million to Rs 13.2 million.[20/]

The generally low performance of the Third Plan was characteristic of most other important sectors. In power the achievement was only about 50 per cent of the target. Perhaps the best record was observed in the transport and the education sector. In the former the government was able to complete 1,090 km of road against the target of 1,365 km. In education the

/important

18/ See Prakash Lohani, "Industrial policy: the problem child of history & planning in nepal", in Pasupati Rana & K.P. Malla (ed), Nepal in Perspective, CEDA, 1971. Also see Pasupati Rana, "Trade", in Nepal in Perspective, CEDA, 1971.

19/ Suresh Sharma, Import substitution in Hotel Industry, in Nepal, CEDA, 1978.

20/ Suresh Sharma, ibid.

important target was to have 40 per cent of children in the primary age group in primary school. By the end of the plan the achievement was 35 per cent. In both these cases, the reasons for better performance are interesting. In the transportation sector, most of the investment and technology came through foreign aid. In the field of education, the enthusiasm of the people to establish school and have their children educated has meant a great deal of non-governmental finance and initiative.

In terms of achieving the 19 per cent growth in GDP the Third Plan was not successful. Relevant GDP statistics is given in table 10.

Table 10 indicates three different things. First, during the Third Plan period the structure of the Nepali economy did not change. Second, the growth rate of the economy is highly irregular. The wide fluctuation in non-agricultural sector does not speak highly of the country's efforts in planning. Third, whatever success achieved in increasing output has been greatly neutralized by increasing population. The per capita income and labour productivity statistics have remained basically stagnant.

Looked from the point of view of capical accumulation the reason for the failure of the Third Plan in achieving its target can be identified as a low rate of savings and a marginal capital/output ratio higher than the implicit ratio assumed in the plan. The following table (table 11) presents the relevant statistics.

Table 11 points out that gross fixed capital formation was never more than 9 per cent even under liberal assumptions. To achieve a growth rate of 3.8 per cent under such a condition the incrimental capital/output ratio would have to be 1.99, whereas the observed ratio was 2.5. Considering the fact that most of the investments made were of the infrastructure type the empirical ICOR cannot be said to be on the high side.

A low level of investments was primarily the result of the government's inability to mobilize domestic resource in line with its

/Table 10.

le 10. Growth in GDP and labour productivity (1964/65 = 100)

m -	Per cent of total	Total GDP	Growth rate of agriculture	Growth rate of non-agriculture	Growth rate of GDP	Population (in million)	Labour force (in million)	Labour productivity (Rs)	Per capita income (Rs)	Index of labour productivity
3		5,602				10.008	5.504	1,017	560	100
32		5,994	11.7	-1.8r	7.0	10.215	5.618	1,066		104
34		5,906	-4.1r	4.2	-1.5r	10.426	5.734	1,029		101
34		5,943	0.6	0.8	0.6	10.642	5.852	1,015		100
34		6,208	3.0	5.3r	4.4	10.861	5.973	1,038		102
34		6,386	3.4	3.7r	2.9	11.086	6.097	1,047	576	103

tistics; (b) Prakash Lohani, Some observations on Economic Growth in Nepal, Nepal Council

tatistically significant revision. Corresponding changes have not been made in the text.

/Table 11.

Table 10. Growth in GDP and labour productivity (1964/65 = 100)

Fiscal Year	GDP from Agriculture (million Rs)	Per cent of total	GDP from non-agriculture (million Rs)	Per cent of total	Total GDP	Growth rate of agriculture	Growth rate of non-agriculture	Growth rate of GDP	Population (in million)	Labour force (in million)	Labour productivity (Rs)	Per capita income (Rs)	Index of labour productivity
1964/65	3,654	65	1,948	35	5,602				10.008	5.504	1,017	560	100
1965/66	4,082r	68	1,912	32	5,994	11.7	-1.8r	7.0	10.215	5.618	1,066		104
1966/67	3,914	66	1,992	34	5,906	-4.1r	4.2	-1.5r	10.426	5.734	1,029		101
1967/68	3,936	66	2,008	34	5,943	0.6	0.8	0.6	10.642	5.852	1,015		100
1968/69	4,053	65	2,115	34	6,208	3.0	5.3r	4.4	10.861	5.973	1,038		102
1969/70	4,193	66	2,193	34	6,386	3.4	3.7r	2.9	11.086	6.097	1,047	576	103

Sources: (a) Central Bureau of Statistics; (b) Prakash Lohani, Some observations on Economic Growth in Nepal, Nepal Council of World Affairs, 1976.

Note: Notation r indicates statistically significant revision. Corresponding changes have not been made in the text.

/Table 11.

Table 11. Capital formation during the Third Plan
(Rs in million)

	Govt. gross fixed capital formation at current prices a/	Govt. GFCF at 1964/65 prices	Govt. investment as percentage of GDP (1964/65 prices)	Capital formation in non-govt. sector b/	Total	Total govt. revenue as percentage of GDP (F) c/	Tax revenue as percentage of GDP (G)
1964/65						3.4	3.04
1965/66	232	204	3.4	119.0	323	3.1	2.91
1966/67	217	186	3.1	132.0	318	4.0	3.78
1967/68	225	195	3.3	148.0	343	4.5	4.22
1968/69	300	249	4.0	170.0	419	5.2	4.91
1969/70	450	337	5.2	191.0	528	5.3	4.91
				760.0	1,931		

Sources: a/ Fourth Plan (1970-1975), National Planning Commission, p. 10. The figures indicate development expenditure under the new budget classification as approved by the planning commission between "development" and regular expenditure items.

b/ Capital formation in the non-governmental sector is assumed to be 2 per cent in 1965/66 increasing every year by .25 per cent to reach 3 per cent by the end of the Plan. This estimate is in line with estimates by other writers. See The Challenge for Nepal, ARTEP, Bangkok. Also S.K. Singh, The Fiscal System of Nepal, Ratna Pustak Bhandar, 1977.

c/ Bhavani Dhungana, et al., An Analysis of Tax Structure of Nepal, CEDA, 1976, p. 27.

/aspirations,

aspirations, Tax revenue as a per cent of GDP was a mere 3.04 per cent in 1964/1965 even though it slowly increased to 4.91 per cent by the end of the Plan. Compared to other developing countries this is quite low and is much below the estimated taxable potential of the country.[21]

The Fourth Plan

The Fourth Plan of Nepal aimed at a growth rate of 4 per cent. The basic framework of the plan was as follows:

1975		1975	
$\sum \Delta$ GDP	=	$\sum$ Investment	X Estimated Incrimental
t = 1970		t = 1970	output/capital ratio
Rs 1,416 million		Rs 3,540 m.X .40	

GDP (1964/1965 prices) in 1969/1970 was Rs 6,561 million.[22] The addition of a Rs 1,416 million worth of new goods and services given a compound growth rate of 4 per cent.

/Financing

21/ A study done by Bahl at the International Monetary Fund of 49 countries fixes Nepal's a taxable capacity at 10.12 per cent of GNP. The taxable capacity is the value given by the regression equation used for analysis. See Maxwell J. Fry, Resource Mobilization and Financial Development in Nepal, CEDA, 1974. A study by Chenery on patterns of development of 100 countries also points out that for countries within the $US 50 - $US 110 per capita income range tax revenue as a per cent of national income varies between 9.8 and 12.7 per cent. See Hollis Chenery and Moises Syrquin, Patterns of Development 1950-1970, Oxford University Press, 1975.

22/ The Fourth Plan (1965-1970), The estimate of GDP given in the Fourth Plan was later revised downward to Rs 6,367 by the Central Bureau of Statistics.

Financing of the Fourth Plan was as follows:

Table 12. Financing of the Fourth Plan
(Rs in million)

Public sector:		2,570
(1) Internal:	1,080	
1.a. Revenue surplus	330	
1.b. Additional revenue from tax charges	300	
1.c. Domestic credit	150	
1.d. Deficit financing	300	
(2) External:	1,490	
1.a. Aid	1,290	
1.b. Loan	200	
Private sector		870
Panchayat sector		100
		3,540

Source: The Fourth Plan, National Planning Commission, 1970.

Public sector investments accounted for 72 per cent of total investments. Foreign aid was 58 per cent of public sector investments and 42 per cent of total investments. Private sector was expected to contribute 25 per cent of total resources needed for the Plan.

Regarding priorities, the Fourth Plan emphasized the need to maximize output. Since over 65 per cent of GDP originates in agriculture, the strategy of output maximization naturally led to the planners to emphasize the agricultural sector as in the Third Plan. But, actual allocations again reveal that the top most priority was given to the development of infrastructure, mainly roads. The following table indicates investment allocations.

/Table 13

Table 13. Allocation of expenditure in the Fourth Plan

(Rs in millions)

	Public sector		Panchayat sector		Private sector		Total	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
1. Transport and communication	1,050.0	(41)	52.0	(43.3)	150.0	17.3	1,252.0	35.4
2. Agriculture, land reform, irrigation, forest and botany	662.8	(26.0)	39.0	(32.5)	470.0	54.0	1,171.8	33.0
3. Industry, commerce power and mining	470.0	(18.5)	-		250.0	28.7	720.0	20.3
4. Panchayat, education health and social services	353.5	(13.8)	29.0	(24.2)	-	-	381.5	10.8
5. Statistics	14.7	(.6)	-				14.7	0.4

Source: The Fourth Plan, National Planning Commission, 1970.

/The

The reason for allocating the largest chunk of investments to infrastructure has to do with the nature of foreign aid. Most highway projects in Nepal have been undertaken by foreign government as aid. From the point of project identification as well as implementation road construction is relatively less cumbersome and confusing both for the donor and the recipient country. Thus, foreign aid has gone into the transport and communication sector more rapidly and easily than in agriculture where the establishment of new institutions and organization within the context of a traditional culture can present the donor country with plenty of unexpected problems. Besides, physical infrastructure items like roads and bridges are visible investments and for many donor countries this consideration also assumes importance.

In terms of achieving the target growth rate the Fourth Plan was a rather routine repetition of the past. Table 14 presents the growth record.

Table 14 presents a disappointing picture. The growth rate in GDP per year over the five year period was a mere 2.2 per cent as against the targeted rate of 4 per cent. Per capita income and labour productivity, given the rise in population, therefore remained virtually stagnant. Comparatively speaking the performance of the Fourth Plan was even worse than the Third Plan when growth rate was 2.44 per cent per year.

Within the framework of the single factor model used in the Fourth Plan, the obvious reason for the failure to achieve the target seems to be an over optimistic incrimental capital/output ratio assumed by the planners.

The empirical incrimental capital/output ratio of 4.03 was considerably higher than a ratio of 2.5 assumed in the plan (see tables 14 and 15). Thus, a high capital/output ratio and an weak savings effort both reinforced to keep the growth rate hardly above the rate of increase in population.[23/]

The Agriculture sector

The performance of the agriculture sector has not been encouraging in the Fourth Plan. Table 16 provides the relevant data.

/Table 14

23/ In 1969/1970 prices the government did in fact, spend 6 per cent more than the targeted public sector expenditure of Rs 2,550 million. But a high capital/output ratio meant that the growth objectives were not realized.

Table 14. Growth rate of GDP and labour productivity

Fiscal Year	GDP(constant prices) (1964/65)	Rate of growth	Population (in million no.) a/	Labour force (in million no.) b/	Labour productivity	Per capita GDP
1969/70	6,367		11.036	6.097	1,057	576
1970/71	6,291	-1.19	11.315	6.223	1,025	
1971/72	6,487	3.11	11.549	6.351	1,024	
1972/73	6,456	0.48	11.788	6.483	995.8	
1973/74	6,865	6.33	12.032	6.617	1,037.4	
1974/75	7,102	3.45	12.281	6.754	1,051.5	578
(735)	Average rate of growth 2.211					

Source: Fifth Plan, National Planning Commission, 1975.

Notes: a/ Population is assumed to grow at the rate of 2.07 per cent.
b/ Labour force is estimated to be 55 per cent of population.

Table 15. Capital formation (Fourth Plan)
(Rs in million)

Year	Govt. gross fixed capital formation at current prices	Govt. GFC at 1964/65 prices	Govt. investment as percentage of GDP 1964/65 prices	Capital formation in non-govt. sector (1964/65)	Total (2 + 4)	Total revenue as percentage of GDP
	1	2	3	4	5	6
1970/71	465 a/	334	5.3	188 b/	522	5.1 c/
1971/72	564	400	6.1	194	594	5.3
1972/73	608	389	6.0	193	532	6.2
1973/74	751	413	6.0	205	619	6.0
1974/75	925	434	6.1	213	647	6.7

Notes: a/ Evaluation of the Fourth Plan, National Planning Commission, 1977, p.3.
b/ Non-governmental investment is assumed to be 3 per cent of GDP. See footnote 3/ in p. 1 of this paper.
c/ Bhavani Dhunagna et al., ibid., p. 27.

/Table 16.

Table 16. Area, production, yield and growth rate for major crops (Fourth Plan)

Item	Year 1969/70 [a]	Year 1974/75 [b]	Actual Increase (%) (5 year period)	Plan [c] Target (%) (5 year period)
Paddy:				
Area	1,173 [d]	1,239		
Production	2,241 [e]	2,453	9.46	10.4
Yield	1.91 [f]	1.97		
Maize:				
Area	432	458		
Production	794	826	3.9	6.7
Yield	1.83	1.80		
Wheat:				
Area	249	318		
Production	289	357	23.6	95.5
Yield	1.16	1.12		
Barley and millet:				
Area	111	125		
Production	124	142	14.5	-
Yield	1.11	1.13		
Sugar cane:				
Area	13	15		
Production	215	251	16	50
Yield	16.5	16.7		
Jute:				
Area	51	34		
Production	49	41	-16	35
Yield	.96	1.2		
Oil seed:				
Area	103	112		
Production	56	64	-14	11
Yield	.54	.57		
Tobacco:				
Area	8.8	6.7		
Production	6.7	4.7	-28.9	33
Yield	.75	.70		

Notes: a/ Evaluation of the Fourth Plan, National Planning Commission, Kathmandu,
b/ Ibid., pp. 10 and 11.
c/ The Fourth Plan, National Planning Commission, Kathmandu, pp. 38 and 43.
d/ Area in '000 ha.
e/ Production in '000 metric ton.
f/ Yield in metric ton/ha.

/Table 16

Table 16 shows that in almost all cases, cereal grain and cash crops production has been far below the targets. Yield per acre, on the other hand, shows a mixed picture.

In purely physical terms, the shortfall in agricultural production can be attributed to the inability of the government to provide vital inputs necessary for expansion in sufficient quantity. The data below illustrates this reasoning.

Table 17. Supply of irrigation and fertilizer during the Fourth Plan

	Fourth Plan target	Achievement	Achievement as percentage of target
1. Irrigation (hec)	183,632	54,424	29.6
2. Fertilizer (tons)	25,000	12,658	50.63

Source: Evaluation of the Fourth Plan, National Planning Commission, 1976.

The shortfall in the supply of a vital input like irrigation has naturally affected the growth rate in output.

The industrial sector

The performance of the industrial sector during the Fourth Plan was disappointing. Data on industrial output of the industries mentioned in the Economic Survey is as follows:

/Table 18

Table 18. Industrial production during the Fourth Plan

	Units	Base year output a/ 1969/70	1974/75 b/	Plan
Sugar	ton	16,238	11,926	No production target
Cigarettes	'000 stick	14,659	30,013	3 million
Matches	gross	515,775	679,000	No target
Jute goods	ton	16,238 c/	12,265	No target
Liquor	ltr	87,856	579,863	No target
Soap	ton	300	259	No target
Shoe	pair	41,983	59,079	No target
Leather soles	ton	138	54 d/	No target
Agricultural tools	ton	142	300 d/	No target
Tea	ton	200	328	No target
Stainless utensils	ton	933	175	No target
Straw board	ton	357	900	No target
Brick and tile	'000	536	24,899	
Beer	('000 ltr)	-	816	
Cement	ton	-	26,933	
Synthetic yarn and clothes	'000 metre	2,354	-	

Notes: a/ Economic Survey, His Majesty's Government of Nepal, 1974/1975.
b/ Economic Survey, His Majesty's Government of Nepal, 1977/1978.
c/ Data for 1970/71.
d/ Data for 1973/74

/A

A few observations on table 18 are now in order. First as an exercise in planning the section on industrial development in Nepal in the Fourth Plan remained weak and shallow. For most commodities the plan did not even bother to mention specific output targets during the five year period. Second, the production of jute goods which is quite important for Nepal for earning hard currency resources declined during this period. This happened inspite of the fact that jute goods exporters were given as much as 90 per cent of foreign currency earned as bonus for importing a wide variety of consumer goods.

There were many new industries proposed to the opened during the Fourth Plan. They are as follows:

Table 19. Industries to be established during the Fourth Plan period (Private sector)

	Output capacity	Achievement (1975)
Textiles	20 million yards	-
Flour mill	9,000 ton	Data not available
Iron pipe	3,000 ton	-
Soap	2,000 ton	-
Brewery	1.8 million bottles	Data not available
Leather refining	-	-
Slaughter house	-	Data not available
Tobacco refining	12,000 ton	-
Jute	10,000 ton	-
Fruit canning	-	Data not available
Resin and turpentine	24,000 ton of turpentine and 10,000 ton of resin	-
Straw board	6,000 ton	-
Ginger refining	1,500 ton	-
Cement	65,000 ton	Completed
Iron and steel	20,000 ton	-
Modern rice mill	24,000 ton	Data not available
Cold storage	2,702 ton	"
Vegetable ghee	7,500 ton	-
Bakery industry	-	Data not available

/Table 19 (continued)

Table 19 (continued)

	Output capacity	Achievement (1975)
Feed mixing plan	50,000	Completed
Pulp and paper	15,000	-
Saw mill	1 million sq ft	Data not available
Paint and varnish	2,000 ton	-
Glass	20 ton	Under construction
Ghee refining	300 ton	Completed

The table above indicates that most industries that were expected to be opened in the private sector have not come up despite government's willingness to finance up to 75 per cent of the total fixed capital.

The poor performance record noted in agriculture and industry has been generally repeated in other sectors as well. In the transport sector public sector achievement was 65 per cent of the target even though 41 per cent of public sector resources were planned to be spent in this sector. By the end of the plan, the spending target had been achieved. Yet, achievement remained almost a third below target indicating either poor project preparation or inefficiency in implementation.

The achievement in the power sector was slightly better. It was 75 per cent of the target. In the area of social services the new education plan was introduced in 1973. It tried to give a definite focus to the education system that is conducive to the economic growth objectives of the nation. Thus, all schools and colleges in the country were brought under a common education policy framework. Vocational education at the middle and high school level was emphasized and higher education was brought under centralized control. This was, expected to increase the supply of middle level technicians most needed for development purposes.

/The

The Fifth Five Year Plan

The Fifth Five Year Plan of Nepal started from 1975 and will continue up to 1980. In many way it represents a departure regarding the basic focus and thrust of planning. Instead of just concentrating on an increase in production as the primary objective of planning, the concern has now shifted to an increase in output to satisfy the needs of the common man. The general tone of discussion regarding the objectives of planning indicates a desire on the part of the planners to understand the economic reality of the "common man", who in all other previous plans was taken for granted.

A shift in the focus of planning from a mere increase in production to improving the living condition of the common man, implies some fundamental changes in economic policies and decisions. The economic characteristic of the common man now becomes a crudical concern. How poor is actually the common man in the society? What is his present structure of consumption, savings and investments? How does he earn his income? How much of the productive income generating assets does he own? How is he related to the village economic and social institutions? How do these links and interrelationship affect his income and his economic decisions? These and many other questions now assume special importance. Understanding the social and economic characteristic of poverty and those bound in its vicious circle then becomes a crucial consideration in planning.

The Fifth Plan has observed the implications inherent in its new philosophy of increasing and orienting production to the requirements the poor. It rejects the "trickling down" hypothesis of development that was popular in the 1950s and goes on to point out the following:

"A system that did not provide opportunities for the majority to participate in the production process but assumed that various policies can be successfully used to redistribute income in their favour will not be able to eradicate poverty, even if production increased over time. Thus, there must be a change in the structure of production, organization of production and the distribution system. Furthermore it is not enough to orient production towards meeting the needs of the masses; their purchasing power must also be increased simultaneously. For the end, it is essential to provide opportunity for involving the maximum number of people in the production process according to their needs and abilities.[24/]

/The

24/ The Fifth Plan. National Planning Commission, p. 22.

The new orientation of the plan meant a rediscovery of the necessity of utilizing the most abundant resource available - i.e. labour. Thus the adoption labour intensive production method in order to assure increased employment was the second objective of the plan. The third objective was regional balance and regional economic integration. For this purpose the country was divided into four growth centres and four north-south growth corridors. Each growth corridor will eventually be linked with a national highway system.

The basic model of the Fifth Plan is the same as the Fourth Plan and is given below:

$$\sum_{t=1970}^{1975} \Delta \text{ GDP} = \sum_{t=1971}^{1975} \text{Investments. O/C ratio}$$

The framework above was used to calculate the rate of growth. Depending upon the availability of resources a minimum growth rate of 4 per cent and a maximum of 5 per cent was present.

The plan assumed an incrimental output/capital ratio of .4. Other major macro indicators of the plan are as follows:

/Table 20

Table 20. Savings investments outlay and production during the Fifth Plan

(Rs in million)

	During the Five Years Period of the Plan	
	Minimum	Maximum
1. Additional GDP (Rs)	3,185	3,958
2. Annual growth rate (%)	4	5
3. Total development outlay: (Rs)	9,197	11,404
3.1 Public sector (Rs)	(6,170)	(7,545)
3.2 Private sector (Rs)	(2,096)	(2,672)
3.3 Panchayat sector (Rs)	(931)	(1,187)
4. Public sector outlay: (Rs)	6,170	7,549
4.1 Domestic resources (Rs)	(3,994)	(4,150)
4.2 External assistance (Rs)	(2,776)	(3,395)
5. Total investments (Rs)	7,963	9,895
5.1 Public sector (Rs)	(4,936)	(6,036)
5.2 Private sector (Rs)	(2,096)	(2,672)
5.3 Panchayat sector (Rs)	(931)	(1,187)
6. Domestic savings (Rs)	5,187	6,500
7. Additional savings (Rs)	882	1,479
8. Average savings rate (%)	6.4	7.9
9. Marginal savings rate (%)	27.8	37.4
10. Average investment rate (%)	9.9	12.1

Source: Vikas - A journal of Development - National Planning Commission, Kathamandu, November 1975, Vol. 1, Statistical Appendix.

/Sources

Sources of finance for the public sector is as follows:

Table 2B. Sources of finance for the public sector expenditure during the Fifth Plan
(Rs in million)

Sources	Minimum	Percentage	Maximum	Percentage
A. Internal sources:	3,393.5	55	4,150.0	55
A.1 Revenue surplus	2,072.8	33.59	2,432.5	32.24
A.2 Internal loan	534.4	8.66	670.0	8.88
A.3 Deficit financing	786.3	12.75	1,047.5	13.88
A.3.1 Use of foreign exchange	(600.0)		(750.0)	
A.3.2 Deficit financing	(186.3)		(297.5)	
B. External sources:	2,776.5		3,395.0	
Grants	1,504.1	24.38	1,685.0	22.33
Loans	1,272.4	20.62	1,710.0	22.67

Source: The Fifth Five Year Plan, National Planning Commission, 1975.

Allocation of investment resources under the Plan is as follows:

/Table 22

Table 22. Allocation of expenditure in the Fifth Plan
(Rs in million)

	Investments for a 4 per cent growth rate				Investments for a 5 per cent growth rate							
	Govt. sector		Private sector		Total		Govt. Sector		Panchayat sector		Private sector		Total	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
)))	1048.0	(50)			3167	(34.4)	2278.7	(30.2)	356.1	(30)	1336.0	(50.0)	3570.8	(34.8)
	41.92	(20)			1799.9	(19.6)	1506.0	(20.0)			534.4	(20)	2040.4	(17.9)
)))	628.8	(30)			2527.1	(27.5)	1990.3	(26.4)	593.5	(50)	801.6	(30)	3385.4	(29.7)
)))					1703.7	(18.5)	1770.0	(23.4)	237.4	(20)	-		2007.4	(17.6)
)))					9190.7	(100)	7545.0	(100)	1187.0	(100)	2672.0	(100)	11404.0	(100)

anning Commission, p. 61.

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Table 22. Allocation of expenditure in the Fifth Plan
(Rs in million)

	Investments required for a 4 per cent growth rate								Investments for a 5 per cent growth rate							
	Govt. Sector		Panchayat sector		Private sector		Total		Govt. Sector		Panchayat sector		Private sector		Total	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
1. Agriculture, Land Refor Irrigation, Forest and Soil Erosion	1839.7	(29.8)	279.3	(30)	1048.0	(50)	3167	(34.4)	2278.7	(30.2)	356.1	(30)	1336.0	(50.0)	3570.8	(34.8)
2. Trade, Industry, Mining and Power	1380.7	(22.4)	-		41.92	(20)	1799.9	(19.6)	1506.0	(20.0)			534.4	(20)	2040.4	(17.9)
3. Transport and Communication	1432.8	(23.2)	465.5	(50)	628.8	(30)	2527.1	(27.5)	1990.3	(26.4)	593.5	(50)	801.6	(30)	3385.4	(29.7)
4. Education, Health and other Social Services	1516.8	(24.6)	186.2	(20)			1703.7	(18.5)	1770.0	(23.4)	237.4	(20)	-		2007.4	(17.6)
	6170.0	(100)	931.0	(100)			9190.7	(100)	7545.0	(100)	1187.0	(100)	2672.0	(100)	11404.0	(100)

Source: The Fifth Plan, National Planning Commission, p. 61.

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We have already indicated in previous section that the incrimental capital/output ratio observed in the Fourth Plan was around four. In the formulation of the Fifth Plan this reality has obviously been ignored. The incrimental capital/output ratio used for calculating the growth rate in the plan is 2.5 which is obviously much below the actual experience. This has had the effect of grossly under stimulating the amount of investments required to achieve the minimum and the maximum growth target. If we assume anICOR 4, the growth rate under the minimum investment programme will drop down to 2.4 per cent which is hardly above the rate of increase in population. Thus, there are strong grounds for arguing that even if the investment resources under the minimum investment programmes were mobilized the growth rate will most likely remain below 2.5 per cent per year.

What we have presented here could be considered faulty for the simple reason that the ICOR observed during the Fourth Plan (1970/1975) need not apply in the Fifth Plan. Investments allocation in the Fifth Plan have changed significantly from the Fourth Plan. Specifically the transport and communication sector where capital/output ratio is relatively high no longer receives the highest priority. Thus, previous estimates of capital/output ratio are no longer valid. The Investment allocation to the transport and communication sector in the Fourth Plan was 35.4 per cent. It has been reduced to 29.7 per cent in the Fifth Plan. But the reduction in investments in the transport and communication sector in the Fifth Plan has not meant a corresponding increase in the agricultural sector. In the Fourth Plan agriculture received 33 per cent of the total resources; in the Fifth Plan it stands at 34.8 per cent. Most of the decrease in the transportation and communication sector goes - primarily towards financing the huge increase in education expenditure necessitated by the New Education Plan.[25/] Increase

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25/ The growth of public expenditure in education is as follows:

	Annual rate of growth		
1970/1971		1974/1975	27.7
1971/1972	10.7	1975/1976	54.8
1972/1973	25.8	1976/1977	4.8
1973/1974	24.7	1977/1978	7.6a/

Source: Durgesh Singh, Some Problems in Financing Education in Nepal, Cyclostyled, p. 2.

Note: a/ Estimate

in social service expenditure of this kind strengthens the future productive base of the economy but it also indicates that the ICOR of the Fourth Plan need not be thrown overboard in the Fifth Plan.

While the focus of the Fifth Plan is on employment generation, a definite strategy on technology is lacking. The plan refers to the need of labour intensive technology but the concrete manifestation of this thinking in actual practice remains awfully indequate. Foreign donor continue to bring technology that is characteristic of the factor combinations of their society. Areas where labour intensive technology is to be promoted developed and protected has yet to be worked out. The classic example is the decision to construct a cement factory providing 700 tons of cement per day. To a large extent, it will meet the growing requirement for construction materials. But the alternatives of building a number of small equally efficient plant was apparently never considered. Technological choice as it relates to employment and regional balance would have called for such an investigations.

On the question of employment, the Fifth Plan observes the deteriorating situation and offers no solution except to promise labour intensive technology. But, which are the areas that are most promising in terms of employment generation? This question is not seriously investigated. Thus, the cottage industry sector which is labour intensive and directly affects the living condition of the masses gets a proportionally reduced allocation in the Fifth Plan relative to the Fourth Plan.[26/] Similarly, irrigation claimed 39 per cent of total resources allocated to the agricultural sector in the Fourth Plan. In the Fifth Plan it is 38.4 per cent. From the point of view of output as well as employment generation one would have expected a definite increase in resources allocated to this sector. On the other hand the whole process of establishing effective institutional links to reach the poor and the

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26/ Out of total funds allocated to industry, commerce and power, share of the cottage industry was 4.8 per cent in the Fourth Plan and 4.2 per cent in the Fifth Plan, see The Fourth Plan (1970) and The Fifth Plan (1975), National Planning Commission, Nepal.

unemployed remains an unsolved dilemma.[27] Thus, the government and the planners, naturally have a tendency to concentrate in areas where bureaucracy can move on its own without the worrying too much about the down-trodden and the poor. This means a preference for relatively big projects, big farmers and an attitude towards investments that is purely bureaucratic and technical.

/Part II

27/ That the search for an appropriate institutional medium to reach the masses is still lacking is confirmed by the finance minister himself, see The Budget Speech 1978/1979, His Majesty's Government, Nepal.

PART II

ECONOMIC PROBLEMS AND ISSUES IN THE 1980S

In this part we present a discussion on some of the economic issues that are likely to emerge as being very important in the 1980s when viewed in terms of attaining the average objectives for the region in the Leontief study.

Land reform measures

Politicians after 1951 have all pleaded land reform and promised to break the vicious hold of the feudal class on the toiling masses if only they had the chance once to get thereigns of the government. Most of them did get their chance and none of them have broken the shackles of feudalism. Attempts have been made towards land reform and laws have been passed but there has always been enough legal loopholes and bureaucratic and political indifference to turn potentially revolutionary efforts into programmes that are bogged down in confusion and disorientation.

During the Rana days, huge tract of state land were given as emoulments to civil servants or as gifts (known as Birta) to the influential members of the ruling elite.[28/] After 1951 land reform became a vital necessity both politically and financially. The elites, after all, were pleading for an end of the feudal economic and social structure. Financially, the government needed extra resources and allowing people to hold tax free land was not in line with the new requirement. Despite these two imperatives, however, the elites of the Rana days were also the power-holders of the democratic regime. Land reform, was therefore against their economic interest, and politicians of Nepal have yet to overcome this barrier.

The first step in land reform was taken in 1952 when "Jagir" tenure was abolished. "Birta" system was abolished in 1959. Owners who paid no land tax because theirs was "Birta" land now had to pay taxes. But the central problems of land reform was controlling and finally abolishing intermediaries between the state and the farmer who tills the soil. These intermediaries did not work but because of their ownership right they could impose even extreme conditions upon the tenants. In fact the organization of agricultural

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28/ For a comprehensive study on land tenure structure of Nepal, see Mahesh C. Regmi, Land Tenure and Taxation in Nepal (Berkley, California) Vols. 1, 2, 3 and 4, 1968.

production and distribution of agricultural land in Nepal followed a typical South Asian pattern. Land ownership was concentrated in a few lands; rents were unregulated; tenants were unprotected against arbitrary eviction, and the average size of holding was uneconomic and small.[29/] Per capita and per household cultivated land was only .173 and .955 hectares.

When King Mahendra assumed power in his own hands in 1960, with a promise to speed up the economic and social changes in the country land reform naturally became the vital issue in Nepal. There were two approaches available to tackle this problem. First, a straight application of "land to the tiller" formula could be tried. Second the government while not eliminating landlordism could try to control its worst abuses.[30/] This is the "early warning system" as applied to land reform. Landlords and feudals would now see that they cannot exploit and live upon the back of peasants. But, they will have time to adjust by either becoming farmers themselves or by moving to the non-agricultural sector of the economy.

The second approach was applied to Nepal. The Land Reform Act of 1964 aimed at (a) providing security to tenants, (b) fixing of land rent that a landlord could extract from the tenant, (c) imposing ceiling on landholdings both on the part of tenants and landlords and (d) establishing a method of mobilizing rural savings to be used for the benefit of tenants who were now protected by law against evictions.[31/] In an economic sense, the price of leasing land (rent) was reduced. This created imbalance since the supply of land was limited and demand was increasing now because of reduced rent in the short run and increasing population over a period of time. An imbalance between supply and demand naturally meant the necessity of imposing land ceilings in order to argument the supply available to the tenants. A reduced rent level and the provision of land ceiling could not possibly be in the interest of the landholding class. Thus, the

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29/ Mahesh Chandra Regmi, "Recent Land Reform Programmes in Nepal" Asian Survey (Berkley, California) Vol. 1, no. 7, 1961.

30/ Nava Raj Chalise, "Land Tenure and Tenancy in Nepal" in Report of the National Seminar on Land Reform, His Majesty's Government, Kathmandu, Nepal.

31/ For a brief introduction to land reform measures and related problems in Nepal see K.C. Ran Bahadur, Land Reform and Land Administration with Problems and Remedies, Department of Land Reform, Nepal.

members of the ruling elite, made sure that there were enough loopholes to nullify the ceiling on land and provision regarding the rights of the tenants. A struggle between landowners and peasants chiefly in the form of a phenomenal increase in court cases was the chief result.

In the face of an existing imbalance between demand and supply, price control (fixing of rent in the case of land reform) needs rationing (i.e. ceiling laws on landholdings for both tenants and landlords) and further widens the gap.[32] In this context, a politics and administration dominated by landed elites will always mean that price control and rationing as applied to land reform becomes relatively ineffective. But, "wherever land reform has been successfully implemented the basic thrust has been to break the political and economic power of the landlords."[33] In Nepal since the landed elite with its strong bureaucratic connexion was at the political forefront the basic spirit of the land reform programme could not take root. As one writer has observed, "academically the thing of rationing implies that if asset preference is equal to the bargaining power i.e. income distribution, social status and so on of the asset holders is unequal rations would be swapped and the weaker bargainer would eventually be disposed of the asset. Only a vigilance agency could check this tendency by imposing in effect a curb on demand. This is what our land reform programme did not see or effectively provide for."[34] A more pointed comment in this area comes from Rose and Landau. They point out that "the original prospectus for a land reform programme was largely the product of several foreign adviser most of whom were connected with the Ford Foundation. Their proposal was then substantially revised by the Palace leaving the formal structure of the reform programme intact but modifying the operational rules in such a way as to support some of King Mahendra's political objective. The programme was enacted into law in his form and then handed over to the secretariat for implementation. The bureaucrats at the central secretariat then reinterpreted certains provisions to further some of their economic objectives. Finally officials at the district and lower level introduced their own revisions in part in response to the demand

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32/ See A.M. Khusro, Economics of Land Reform and Farm Size in India, Institute of Economic Growth, 1973.

33/ Peter Droner, Land Reform and Economic Development Book, 1972, p. 77.

34/ Y.P. Pant "Address by the Chairman", National Seminar on Land Reform, His Majesty's Government of Nepal, p.176. A similar conclusion for India, is to be found in Khusro, ibid., p. 13.

of the local elite with whom they had to deal. In its stated goals, objectives and provisions the land reform programme was not too different from the one proposed by the foreign advices; no actual implementation however, it became a grotesque caricature of that programme.[35]

In more specific terms, the land ceiling provisions has not really worked. Even according to the land reform department itself "in a way our Land Reform Programme has more failures than success in that land acquisition is hardly exceeding 3 per cent of total cultivable area and land redistribution has not been made even to that percentage".[36]

As regards fixing of rent, the government has been unusually cautions so that the interest of the landlord class does not receive a serious set back. First, the Land Act 1964, stipulated that rent cannot exceed 50 per cent of the main annual crop or the prevailing rate whichever is lower. This provision, in a way had simply legalized the status quo as far as the distribution of output between landlord and tenant was concerned since farmers in Nepal according to one study did not pay more than 50 per cent of the main crop as rent to the landlord even before land reform.[37] But even this provision was not operational for many years since the government hesitated to fix rent absolutely so that the tenant knew how much is meant by 50 per cent of annual crop.[38]

Second, the 50 per cent formula viewed economically may act as a deterrent to the use of improved farming methods and techniques by the peasants. The acceptance or rejection of a new technology depends, among other things, on the relevant cost and profit calculation that the farmer associates with its use. One way to change this calculation in favour of the new technology would be to increase the share of the tenant who does the actual farming.

The fear that the 50 per cent formula may hamper the adoption of modern farming methods by farmers is now gradually being appreciated. The agricultural development programme prepared by His Majesty's Government frankly admits that provision requiring the farmer to hand over 50 per cent of the output to the

/landlord

35/ Quoted in Puskar Rijal, "Alternative Poverty Focused Planning Strategy in Nepal", CEDA (Cyclostyled).

36/ K.C. Ram Bahadur, op. cit., 1971, p. 53.

37/ M.A. Zaman, Evaluation of Land Reform in Nepal, His Majesty's Government of Nepal, 1972.

38/ K.C. Ram Bahadur, op. cit., p. 55.

landlord acts as a deterrent for the adoption of modern technology.[39] As for the new output sharing formula two major seminars on land reform held in 1970 and 1974 have recommended that the tenant should pay no more than one-third of the principle crop.[40] The government is gradually accepting this recommendation but its implementation on a national scale in an effective manner is yet to be observed.

One of the noval feature of land reform programme as applied to Nepal was the "compulsory savings scheme". The logic behind this scheme was to divert active capital and pressure of population from the land to other sectors of the economy in order to accelerate the pace of economic development of the country.[41]

Once land reform was in progress, it was correctly argued that the traditional money-lending class would stop the flow of credit to farmers. In order to fill this gap, landonwers and tenants were required to deposit a certain portion of the annual produce with an agency or committee appointed for this purpose by the government. Resources collected in this manner would then be recycled back to the farmers to meet their farm credit needs. Between 1964/65 and 1969/70 an impressive Rs 173.0 million was collected.[42] But the proper use of this fund through the 34,000 ward committees established for the purpose became virtually unmanageable. Thus resources were not used the way they were meant to be. A significant portion of the collected savings was used for trading and for the purchase of government bonds. For the farmer "this was nothing less than misappropriation of his hard earned savings and defeated the purpose for which the government had collected them".[43] Eventually, farmer's opposition caused by the misuse and inefficient use of funds led to the cancellation of the scheme in 1969.

From our discussion so far, it is clear that Nepal's experiences in land reform has not been a success story. A land reform programme led by the bureaucracy closely allied with the landowning class has meant that most of the economic objectives of the programme have not been achieved. Ceiling laws have been successfully evaded and the state has not mastered enough political courage and administrative

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39/ Agricultural Development Plan, His Majesty's Government of Nepal, 1973, p. 78.

40/ Report of the National Seminar on Land Reform, October 1970. The report recommended that the rent should not exceed one-third of the principle crop. Also see Proceedings of Workshop on Development Support for Small Farmers, Agricultural Development Bank, 1974. The report said that "the rent should be fixed at one-third of the two years average gross product of the principle crop and payable in cash. The communication in cash should be based on average price over a period of two years".

41/ Nepal Land Acts and Rules, 1964, His Majesty's Government, Kathmandu, Nepal.

42/ K.P. Rizal, "Compulsory Saving Schemes in Nepal", in K.P. Rizal (ed), Land Reform in Nepal, Department of Land Reform, Nepal, 1971, p. 32.

43/ Bharat Dhital, Compulsory Savings Scheme in Nepal, Ministry of Agriculture, June 1971.

efficiency even after 14 years since the introduction of the reform programme to fix rent at one-third of the main crop. In the meantime landlords have been active in evicting tenants by taking advantage of vaguely defined provisions of the law. This has led to a situation of conflict between landlords and tenants and law courts are being overwhelmed with cases relating to land.

As regards the establishment of institution to reach the poor and the small farmers in the villages and countryside with modern agricultural technology and inputs, the record is not encouraging. The failure of the compulsory savings scheme has been a big blow to any efforts towards mobilizing resources locally for local use under local management. In the meantime, the early 1970s has been the consolidation of co-operatives under the supervision of the Agricultural Development Bank. But the coverage of credit facilities to farmers through institutional sources (i.e. banks, co-operatives, etc.) is still limited to 20.87 per cent of total credit supply.[44/] Furthermore, the focus institutional credit is primarily towards large farmers, with the result that "thus far only 9.98 per cent of farmers in the small size group have been able to get credit from institutional sources as compared to 16.11 per cent of the medium size group and 48.80 per cent of large size group.[45/] Such a trend goes directly against the proposed objective of the political system in the country. But the whole notion of involving the masses in the management of local level economic institutions so that it stops becoming a tool of economic domination of the rural elites remains a problem with no operational solution in sight.[46/]

Regarding future course of action in land reform, policy-makers in Nepal remain at best, confused. But the question of property relations in land is bound to be a major policy issue in the 1980s. Basically, the debate is likely to reflect two divergent view points. First, a segment of urban intellectuals and their supporters have started championing the view that since tenancy reform in Nepal has failed to have the desired impact on output and wealth distribution, there is now no alternative except to move forwards to the final "land to the tiller" strategy. The

/draft

44/ Agricultural Credit Survey - Nepal: Summary and Recommendations, Nepal Rastra Bank, Vol. IV.

45/ Ibid., p. 188.

46/ The confusion of the government in this field is reflected in the budget document of 1978. Analyzing the reasons for the poor performance of the agricultural sector the Minister of Finance, Dr. B.B. Thapa points out that "there is an urgent necessity to search for a viable institutional medium to take new inputs and technology to the farmers for purpose of increasing agricultural productivity", see Budget Speech 1978/79 (Translation from Nepali to English in my own).

draft outline of the basic principles of the Sixth Plan (1980-1985) reflects this line of thinking. The document stresses the need for radical approach to land reform so that the tillers of the soil get the maximum return for their labour.[47/] But, a second approach, which could be labelled as the Cautious Evolutionary Approach (CEA) would reject such a radical proposal on three different grounds. First, CEA supporters would question the capability of the political system to implement radical programme. How can one advocate radicalism when in fact the national policy has failed even in implementing successfully an evolutionary programme like tenancy reform? Politics, they would argue is more than simple adventurism, in the name of planning. Second, CEA supporters, point out that one of the basic thrust of tenancy reform in 1964 was to gradually encourage the landlord class to move from agriculture to the non-agricultural sector. But, this has not materialized since the growth of the non-agricultural sector has been at best very slow. Given an increasing population, such a trend has meant an increase in the aggregate demand for land. It has forced the landowning class to be ever more dependent on land, and has thus strengthened their resolve to keep their hold on land even if it means increased conflict, and the eviction of tenants. Given these conditions CEA supporters, argue that before the government thinks of launching any new radical programmes without the necessary political and organizational base for its success, it must first examine why it has failed to implement the land reform programme of 1964. The best strategy, would be to try to implement basic spirit of the programme launched in 1964. This would mean elimination of legal loopholes that have allowed the eviction of tenants and the flouting of ceiling laws by the landlord class. It would also mean sincere efforts in establishing village level economic institutions that can reach the majority of the people with new inputs and technology. On top of this, the job of fixing rent in absolute terms in a manner that is in the interest of the tenants needs to be carried out without delay. Finally, at the political level small owner cultivators and tenants must be mobilized to safeguard their interest through the Peasant's Organization. So far, CEA supporters point out peasant's organization has either been virtually defunct or it has provided a base for the landed aristocracy to push its interest. Until the political system of the country corrects this fundamental anomaly, any land reform programme will loose its basic thrust and direction.

For Nepal the issues in land reform are going to be increasingly important in the future. The country's population is rising at the rate of 2.4 per cent. Increase in GDP has barely kept pace with population and annual increase in agricultural production has remained below 2 per cent over time. In the meantime annual addition to

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47/ Draft Principles of the Sixth Five Year Plan (Nepali), National Planning Commission, 1978.

labour force numbers slightly over 100,000. Since the growth rate of the non-agricultural sector has been very slow much of the new additions to the labour force has to find employment in agriculture. All these facts will increase the demand for land and intensify the process of land fragmentation. During the 1980s these problems are likely to gain momentum and any government that plans to survive with peace and material progress inside the country will have to show the political will and strength to pursue a programme of land reform that is not full of indirect concession to the landed elites as in the past. Ultimately, the question in land reform is not the radical or the evolutionary approach, it has to do with the very ability of the government to implement any sort of programme in changing property relation that is orientated forwards the benefit of the masses.

Resource mobilization

Government revenue as a percentage of GDP has nearly doubled in Nepal during a period of 10 years. But it is far short of the country's requirements as outlined in the Fifth Five Year Plan. With an average investment of 9.9 per cent of GDP and ICOR of 4 the over-all level of resource mobilization in the economic system must rise of as around 16 per cent of GDP during the Fifth Plan period, just to achieve a growth rate of 4 per cent. Since the amount of foreign aid that Nepal can use to add to her resource is already included in the 9.9 per cent investment figure, extra resources will primarily have to come from the economy itself. The other alternative would be an increase in the productivity of investment. This brings the question of the pattern of resource allocation. If enough resources could be diverted to quick yielding projects, capital/output ratio could decrease and this could mean less pressure on resources mobilization. The pattern of investment allocation in the Fifth Plan, however, is also heavily oriented towards long gestation projects. Thus, there seems no alternative to increase internal resource mobilization.

Regarding the prospects of dramatically increasing resource mobilization in the 1980s the chances do not seem bright at least under the present style of bureaucratic economic management. The country already has a relatively high level of indirect taxes and further prospects of increasing revenue significantly from this sector does not seem promising. Sales tax for example was first introduced in Nepal in 1965. For the first few years it was virtually a gold mine for the government to extract resources. Collecting sales taxes, right at the custom point without worrying about sales, further increased the yield from this system. But a point was reached in 1977, when the

/government

government was forced to decrease sales and excise on a wide variety of goods, because it had brought a slump in trade, production and an increase in smuggling from across the border in India.[48/] As of 1976/77, indirect taxes contributed as much as 77 per cent of total government. Apart from being regressive and therefore unfair to the poorer section of the population, it is higher even as compared to countries with a per capita income below $US 100. Thus any significant increase in government revenue from changing the indirect tax rate, remains strictly limited in the future.

When it comes to direct taxes, the picture is different as indicated by the following table:

Table 23. Composition of tax revenue in developing countries

Year	Direct taxes			Indirect taxes	
	Income-tax	Taxes on property	Poll taxes	Custom	Taxes on production and internal transactions
1953/55	22.4	8.6	.72	36.8	29.5
1966/68	23.5	6.3	.06	33.7	35.7
1969/71	27.3	5.3	1.40	32.2	31.9
			Nepal		
1953/54	-	51.4		40.0	8.6
1967/68	4.3	20.5		45.8	17.1
1970/71	5.3	19.5		39.6	30.0
1975/76	7.9	10.4		39.5	34.8

Source: S.K. Singh, Fiscal System of Nepal, pp. 142 and 143.

The table above refers to developing countries. Comparing data on developing countries taken as a whole with Nepal may not be all that relevant. Nepal is relatively underdeveloped country even among the developing countries. But it does provide some indications about areas where resource mobilization efforts need to be directed. Clearly, Nepal could improve on her record of collecting direct taxes.

Increasing direct tax collection is difficult both politically and administratively. But economic development involves some "hard" choices and therefore it needs a political and administrative structure that can push such decisions. At some stages, the problem,

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48/ See The Rising Nepal, January 27, 1977.

of course, can be purely administrative, i.e., scarcity of qualified people who can handle the job. But after twenty years of continuous infusion of trained personnel, this plea alone cannot be used as a reason to justify to weak tax effort.

In discussing the need to raise more revenue from direct taxes, the low contribution of income taxes is glaring. In developing countries income taxes contributed to as much as 27 per cent in 1969/70 but in Nepal this figure is slightly over 7 per cent. In the future years to come resource mobilization will mean strong attempts to raise this number at least in par with other developing nations.

There are other sources apart from direct taxes which the government will have to utilize more effectively in the future. Public enterprises, for example, have claimed a significant quantum of governmental investments but their contribution to governmental revenue has been minimal.

Table 2.. Total assets and gross profits of public enterprises

(Rs in million)

	1970/71	1971/72	1972/73	1973/74	1974/75
Total assets (accumulative)	1,390	1,726	2,314	2,994	4,418
HMG financial assistance	536	664	860	977	1,302
Gross profit before tax, bonus and interest	37.3	35.1	40.9	42.0	55.9
Gross profit/ total assets	2.7	2.0	1.7	1.4	1.2
Direct tax paid to government	15.7	13.5	12.4	6.1	29.6
Dividend paid out in Government	1.1	1.9	3.6	4.0	3.7

Source: Compiled from Performance of Public Enterprises in Nepal (Macro Study), ISC, pp. 217, 218, 219, 220, 221 and 225.

The table above, indicates that total assets of public enterprises have increased from Rs 1,390 million in 1970/71 to Rs 4,418 million in 1974/75. Similarly His Majesty's Government contribution has shown a sharply rising trend.

/But

But gross profit decreased from 2.7 per cent of total assets to 1.2 per cent, during the same period.

The low profitability of public enterprises affects government revenue in more than one way. Since profitability is poor, yield from direct taxes tends to be low. Second, enterprises that cannot earn profit cannot also pay dividend. Thus, income from dividend tends to be low. Third, when enterprises are running at a loss it generally means under utilization of existing capacity and therefore reduced output. This has the effect of reducing indirect taxes in the form of excise, sales tax and royalty. In view of these considerations, improvement in the performance of public enterprises, represents a major source of revenue that has been neglected so far.

Apart from public enterprises the government has created new capacity for supplying development input in different areas. But the output of these newly created stock of capital is often being misutilized, underutilized or sold at ridiculously low prices. Investments in creating new irrigation facility for example has been going on over the last twenty years, but returns from it in the form of water cess, have remained insignificant.

Table 2. Expenditure on irrigation and income from water cess

(Rs in million)

Year	Expenditure on irrigation	Income from water cess
1970/71	38.68	1.1
1971/72	46.44	1.7
1972/73	35.90	1.6
1973/74	80.14	1.7
1974/75	75.80	1.8
1975/76	109.49	1.7
1976/77	-	-

Source: See Evaluation of Irrigation Projects in Nepal: The Case Study of Boyusi Tar Irrigation Project (Preliminary report), APROS, Kathmandu.

/Table 25

Table ... indicates clearly the negligible benefit that the government has been able to realize from investments in irrigation. To the extent that new irrigation facility increased output, the government should be able to claim up to 15 per cent of incremental benefit made possible by the new investments. The stagnant trend in water cess collection despite increasing investments in irrigation clearly points out that the revenue generating potential of such investments is neglected. Administrative laxity as well as an inability to develop a system of water management that makes the maximum use of the newly created capacity seems to account for this failure.

As in the case of irrigation, huge investments made in the establishment of horticultural farms engaged in production and promotion have yet to yield anything to the government in terms of revenue. Most of these farms are on permanent subsidy and efforts to generate enough revenue from the sale of their services so that they can be financially self-reliant over time are completely lacking.

From our discussion so far five major trends as regards resource mobilization, can be identified. First, the possibility of increasing resources through indirect taxes is not promising. Except the built-in flexibility that exists in such tax system as related to changes in GNP, the prospect of exploiting the "buoyancy effect" is strictly limited. Second, major thrust in resource in the future mobilization will have to go towards increasing the contribution of direct taxes. Third, the management of public enterprises will have to be dramatically improved if they are to contribute in a significant way to government revenue. Fourth, the pricing and management of many government created facilities for new inputs (i.e. irrigation, horticultural farms, etc.) will have to see some radical changes if investments in such area are to be used for resource generation. Finally, agriculture which is lightly taxed so far must play an active role in future resource mobilizations. The Panchayat Development and Land Tax could be considered as a correct step in this direction.[49/] But the management of this tax system is the crucial consideration. It requires a high level of political discipline and financial integrity on the part of the village political cadres who would ultimately have a great say in its use. To the extent, that there is weakness in this area, PDLT can be a vehicle for frustration and discontent not

/visualized

49/ The Panchayat Development and Land Tax is a new experiment in local resource mobilization. Under this system both landlords and tenants are expected to pay a certain proportion of their agricultural income as taxes to the local Panchayat (or village council). The Panchayat is allowed to retain as much as 55 per cent of the total tax proceeds for local investments. It is estimated that revenue from agricultural taxes will increase by about 75 to 100 per cent after the introduction of this system. Every Panchayat (i.e. county) under this system will have financial resources contributed by local citizens for local level development.

visualized at the present.

Summing up, increasing resource mobilization by the government sector in Nepal in the 1980s is crucially dependent upon improvement in the system and techniques of political and bureaucratic management of resources rather than changes in tax rate, particularly indirect taxes. For a country that has shown many symptoms of Myrdal's soft state, the prospect of resource mobilization through efficiency and effectiveness in the management of resources does not seem promising. But Nepal's other options, as we have suggested are limited. Unless this is realized, the prospect of Nepal's planning being able to raise the level of investment to over 20 per cent of GDP as outlined for low income Asian countries in Leontief's study seems extremely difficult.

Employment

Nepal's population has been increasing rapidly and this trend is expected to continue in the future. The following table illustrates this point:

Table 26. Nepal's population: past and future

Year	No. in million	Percentage variation over the previous period
1952/54	8,473	-
1961	9,412	11.1
1971	11,556	22.8
1975	13,986	-
1980	15,465	33.8
1990	18,530	-
2000	21,339	37.9

Source: Data upto 1970 is from Statistical Pocket Book Nepal, His Majesty's Government, 1974. Population projection is from United Nations projection for Nepal quoted by Kingsley Davis "Demographic reality and Policy in Nepal's Future" in Workshop Conference on Population, Family Planning and Development in Nepal (Berkley), 1975.

/The

The rapid increase in population has put an increased pressure on cultivable land as indicated below:

Table 27. Cultivated land and population by regions (1971)

Regions	Cultivated land ('000 ha)	Population ('000)	Household ('000)	Per capita cultivated land (ha)	Per household cultivated land (ha)
Mountain	97 (4.86)	1.139 (9.86)	205	0.085	0.473
Hill	606 (30.36)	6.071 (52.53)	1,091	0.100	0.555
Terai	1,293 (64.78)	4.346 (37.61)	794	0.297	1.628

Source: B.P. Dhital, "Population Growth and Agriculture" in Population and Development in Nepal, CEDA, August 1974.

The table above indicates that there is a great disparity in per capita cultivated land among the three major geographic regions in the country. Furthermore, land available to a household in Nepal is already very low. The pressure on land, on the other hand, can be expected to increase further in the future.

Nepal's population, as we have noted, will continue to increase in the future. Since 94 per cent of the people earn their living from agriculture, most of the additions to the labour force will be felt in the agriculture sector. But, Nepal has remained so far a low growth economy, with the rate of increase in GDP averaging to no more than the annual growth rate in population. The level of resource mobilization, on the other hand is relatively low and is no where close to the over 20 per cent figure that would be necessary for the growth pattern visualized in future economic scenarios for low income Asian countries. The effect of this weak resource mobilization effort has meant that the capacity of the non-agricultural sector to absorb the increase in labour force remains limited. Most of the additions to the labour force therefore will have to find employment in agriculture which is already overcrowded and is suffering from serious symptoms of underemployment if not outright unemployment.

An increasing population within the context of a low growth economy with a relatively high man/land ratio has meant that despite many five-year plans a shift in population from agriculture to non-agricultural sector is not to be

/observed

observed in Nepal. The trend is, in fact, in the opposite direction as indicated below:

Table 2[illegible]. Economically active population in various sectors

Year	Total labour force	Labour force in agriculture	Labour force in non-agriculture
1961	4,306,839	4,041,000 (93.8%)	265,839 (6.2%)
1971	4,853,000	4,579,000 (94.4%)	274,000 (5.6%)

Source: Compiled from Fifth Five Year Plan, National Planning Commission, 1975

Table 20 indicates that the percentage of people relying on agriculture has increased during the 1960s. More and more people are being forced to find employment in agriculture which is already suffering from low productivity that is barely above the subsistence level. Naturally an increasing member of people are also being forced to remain idle. This phenomena is indirectly reflected in the statistics on economically active labour force in the nation. In 1961 percentage of economically active persons to total population was 45.8; it decreased to 42.0 in 1971.[50/]

A definite and concrete picture of unemployment and underemployment is provided by a recent study on this topic by the Planning Commission. According to this study, open unemployment as defined as being "without any work spending time without doing anything, idle" remains at 5.62 per cent of the labour force.[51/] As compared to many other developing countries this may seem as a low figure but this provides no reason to underestimate the general problem of full utilization of the available man[illegible] Generally, in a country like Nepal where 96 per cent of people live in rural areas open unemployment as defined as being "without any work" remains low since most farmers will report their main occupation as farming. Thus, the low figure on unemployment cannot be taken as an indication of the full utilization of the available manpower in the nation.

/In

50/ The Analysis of Population Statistics of Nepal, His Majesty's Government, 1977.

51/ Employment, Income Distribution and Consumption Patterns in Nepal, National Planning Commission, Vol. IV, July 1978.

In order to get a picture of the utilization of the available labour, the National Planning Commission study defined underemployment as "working less than the number of working days prescribed during a year (visible) or more persons engaged in a particular work than actually required according to a given standard"[52/] (invisible). For quantitative estimate the study concentrates on the first measure of underemployment. Major findings at the national level are as follows:

Table 29. Estimate of underemployed labour days

(in '000)

Area	Estimated total population	Estimated total labour force	Total working days	Total utilized labour days	Total unutilized labour days	% of utilized labour days	% of unutilized labour days
Rural	12,505.9	7,337.8	2,219,566	809,248	1,410,318	36.54	63.54
Urban	630.5	243.5	68,180	36,986	31,193	54.25	45.75
National	13,136.4	7,581.3	2,287,746	846,235	1,441,511	36.99	63.01

Source: Employment, Income Distribution and Consumption Patterns in Nepal, National Planning Commission, Vol. IV, July 1978, p. 78.

Table 29 points out that as much as 63 per cent of the available man days in Nepal is unutilized, as of 1977. As for the future, the situation does not seem promising. The rate of increase in population as already indicated, is likely to increase in the 1980s. Aggregate investments, on the other hand, remain at a relatively low level and no dramatic breakthrough can be expected in the next few years. Both these factors point out to the possibility that the magnitude of underemployment will increase during the next ten years.

The fact that underemployment is emerging as a major problem is being gradually recognized by the government. The draft Sixth Five Year Plan (1980-1985) lists increase in employment-cum-production as the number one objective of planning. The plan sees a rapid increase in employment opportunities as being essential both for improving income distribution and meeting the basic needs of the masses.[53/]

52/ Ibid., p. 21.

53/ Principles of the Sixth Five Year Plan, September 1978.

A systematic approach to increasing employment opportunities in the future will require a careful consideration of investments, technology and institutions. Increased employment must definitely mean an increase in investments, and the adoption of improved technology. But the pattern of investment allocation and the choice and development of applied technology must be related with the structure of available factor supplies in the economy. It is worth noting here that the pattern of investment allocation affects both the demand and supply of labour. And increase in investments in family planning, for example, will clearly affect employment through its effect on the supply side over time.

Institutional structure is the link that relates investments and technology with the people. It is through institutions that improved technology and other complementary inputs reach the people. Institutions, in effect are the new highways through which a society and people want to travel for reaching their destination. To the extent that this collective pathway is accessible only to a few the problems of growth and underemployment are likely to become more difficult.

To effectively deal with underemployment in the 1980s Nepali planning will have to consider investments, technology and institutions in an integrated manner. This has not been done so far. A seriousness in resource mobilization that is in line with the challenge of underemployment is yet to be seen. Similarly, even though agriculture has always been accorded high priority in the Plan, a strategy of agricultural development that provides a basis for policy formulation has been lacking. A strategy on technology, on the other hand, has yet to be worked out for both the agricultural and the non-agricultural sector. (In many cases, the technological element in production is decided by the aid of giving countries. The technological input, therefore, reflects the factor composition of the donor country which is likely to be different from that of Nepal.)

As for institutions, that carry investments and technology to the country side, the country has yet to evolve a viable mechanism that is able to combine bureaucratic effort with people's participation. Development efforts so far have remained primarily bureaucratic. In agriculture, for example, one author finds that extension workers concentrate on innovators who are "characterized by large acreage of land, high social status, higher education, risk takers and having access to information from many sources".[54/] Naturally, under this strategy the majority of small and

/marginal

54/ R.P. Yadav, "A Glance at the Present Agricultural Research and Extension in Nepal", APROSC staff paper, February 1976.

marginal farmers are left out with poverty and a lot of idle time at their disposal.

Income distribution

Until the advent of democracy in 1951, Nepal was a subsistence agricultural economy with a feudal mode of production. The ruling family and their collaborators used the bureaucracy primarily to enhance their wealth and income positions. The state treasury, as indicated in previous section, was considered as a part of the personal finance of the ruling prime minister. Whatever, he could save after meeting the needs of bureaucracy and the law and order machinery was considered as an addition to his personal income.

Since 1951, many things have changed. Probably, the first dramatic change in finance was the fact that the income of the state was no longer considered as a part of the personal finance of the ruling prime minister. The government was now responsible to the people and the concrete manifestation of this fact in governmental finance was the introduction of the budget system since 1952/53. But, when it came to the question of changing property relation in land, politicians in Nepal, as we have already indicated in previous section, have taken basically an opportunistic approach. Measures to control the exploitation of the landed class and to promote peasant farming that is responsive to profit opportunities have met with stiff opposition. The landed class, closely allied with the bureaucracy has been quite active in preserving its over-all wealth and income position. This may seem somewhat of a contradictory statement, since large holding running into hundreds of acres of land are no longer visible for the simple reason that land ceiling per family has been fixed at 25 hectares. But, there are two compelling reasons to argue that the landlord class has managed to avoid some of the worst effects of various land reform measures in its wealth and income position in the society. First, landlords, have evaded ceiling laws by distributing their land over 25 acres among family members, friends and relatives. Over the years, since the demand for land has been increasing, they have been successful in selling the surplus land. The effect has been to monetize their wealth. If this liquid wealth had found its way to capital formation in the non-agricultural sector one could argue that a transition to capitalism was being made. But in the case of Nepal, open border with India, free convertability between Indian and Nepali currency, the generally underdeveloped state of the financial market and a tradition of investing in Indian companies by the ruling class before 1951 has encouraged capital flight to India.[55/]

/Secondly

55/ See Gorkhapatra (Nepali Daily), May 3, 1977.

Secondly, many medium-class landlords who have not sold land have become aware of their need to protect their wealth and income position now. This new awareness has meant two things. First, landlords would now try to evict tenants and turn them into wage labourers. Second, many landlords have become conscious of the profit opportunities from farming especially with loans and other physical input supplied by new state supported developmental institutions. This has encouraged the landlord class to borrow and move into capitalist style farming. In the struggle to acquire new inputs and technology, the landlord class has been quite successful, since they are well represented in politics and closely aligned with the bureaucracy. On the other hand, if this process continues, the wealth and income position of the new landlord-cum-capitalist farmers is bound to improve often at the cost of small farmers, marginal farmers and tenants. An increasing inequality of this nature, within the context of a low growth economy can hardly be considered as a positive development especially when we view it in terms of its likely impact on future political stability and order.

In the non-agricultural sector emerging trends in the ownership of new income generating assets points out to the need for attention if increasing inequalities in the future are to be controlled. The average growth rate of the non-agricultural sector has been only 2.5 per cent annually during 1964/65-1972/73. But government policies in the form of tax holidays and various other incentives have encouraged the expansion of some simple manufacturing and service type industries (i.e. hotels and other related industries catering to tourists) at a relatively faster rate. Between 1964/65 and 1972/73 for example, contribution of manufacturing to GDP increased from 1.48 to 2.7 per cent.[56/]

Even though the contribution of manufacturing and services is still very low in Nepal, ownership trend in this sector shows a distinct tendency towards concentration. A new "class" that is determined to improve its wealth position by securing concession from the government in the name of industrial development is emerging and is likely to be prominent in the future. Government's efforts to mobilize private savings in the non-agricultural sector and broaden the ownership base, have generally failed. For example, between 1955 and 1975, not even one public limited company was registered inside the country. On the other hand, government's effort to promote industrial capital accumulation and broaden the

/ownership

56/ Central Bureau of Statistics, Kathmandu, Nepal.

ownership structure through a co-operative scheme known as the Sajha system has failed miserably despite the fact that it was considered as one of the corner stone of the new "partyless system", established since 1960.57/

A recent study by the National Planning Commission provides a picture of the income distribution in Nepal. According to the study average family and per capita income in Nepal is Rs 6,908 and Rs 1,171 respectively. As for the distribution of income at the national level, it is as follows:

Table 30. Percentage distribution of families share in net income and average net income per family in different income classes

Annual income class (Rs)	Sample size	Percentage of family	Percentage share in annual income	Annual average income for family (Rs)
Under 500	135	2.94	0.08	250
500 to below 1,500	469	10.20	1.17	1,000
1,500 to below 2,500	729	15.87	3.65	2,000
2,500 to below 3,500	689	14.99	5.17	3,000
3,500 to below 4,000	332	7.22	3.12	3,750
4,000 to below 5,000	465	10.12	5.24	4,500
5,000 to below 8,000	765	16.65	19.60	6,500
8,000 to below 10,000	269	5.85	8.06	9,000
10,000 to below 15,000	291	6.33	9.10	12,500
15,000 to below 25,000	190	4.13	9.51	20,000
25,000 to below 40,000	120	2.61	9.76	32,500
40,000 to below 75,000	94	2.05	13.53	57,500
75,000 and above	48	1.04	14.01	118,750
Total	4,596	100	100	-

Source: A Survey of Employment, Income Distribution and Consumption Pattern in Nepal, National Planning Commission, 1976.

Table 30 above does not allow us to compare the trend in income distribution but it does indicate that inequalities remain fairly high. The top 9.84 or approximately 10 per cent of households are able to claim as much as 46.64 of

/total

57/ Prakash Lohani, "Some Observations on Economic Growth in Nepal", Nepal Council of World Affairs, 1976

total income whereas the bottom 13.84 per cent get no more than 1.17 per cent. Nearly two-thirds of the families (66.27 per cent) remain below the medium income of Rs 7,750 and receive only 20.59 per cent of aggregate net income. The Gini coefficient remains at a relatively high figure of .59 at the national level.

Rural-urban differences in income and income distribution

Average per capita and family income in rural and urban is as follows:[58/]

	Per family income	Per capita income
	Rs	Rs
Rural	5,569	950
Urban	12,711	2,094

As for income distribution differences between rural and urban families, the table below provides the relevant data:

Table 31. Percentage distribution of families share in net income and average net income per family in different annual income classes (rural and urban)

Annual income classes	Sample size		Percentage of families		Percentage share in annual income	
	Rural	Urban	Rural	Urban	Rural	Urban
Under 500	132	.3	3.6	.32	.11	.01
500 to below 1,500	441	28	12.04	3.00	1.48	0.28
1,500 to below 2,500	634	95	17.30	10.19	4.25	1.87
2,500 to below 3,500	547	92	16.30	9.87	6.00	2.72
3,500 to below 4,000	265	67	7.23	7.19	3.33	2.48
4,000 to below 5,000	359	106	9.80	11.37	5.42	4.71
5,000 to below 8,000	993	212	15.09	22.75	21.64	13.60
8,000 to below 10,000	189	80	5.16	8.58	5.70	7.10
10,000 to below 15,000	180	111	4.91	11.91	7.54	13.68
15,000 to below 25,000	115	75	3.14	8.05	7.71	14.80
25,000 to below 40,000	89	31	2.43	3.33	9.70	9.94
40,000 to below 75,000	78	16	2.13	1.72	15.04	9.08
75,000 and above	32	16	.87	1.72	12.08	19.73
Total	3,364	932	100.0	100.0	100	100

Source: A Survey of Employment, Income Distribution and Consumption Pattern in Nepal, National Planning Commission, 1978.

58/ Ibid.

/Table 31

Table 31 reveals that income distribution tends to be more equal between rural and urban areas at the upper bracket. The top 10 per cent in rural and urban areas for example earn approximately 46.5 and 44.5 per cent respectively. The share of the lowest 10 per cent, on the other hand, is 1.92 per cent for rural and 4.32 per cent for urban areas. As a measure of concentration, Gini coefficient is .60 per cent in rural and .55 per cent in urban areas.

The analysis so far indicates that income distribution in Nepal compress unfavourably even with countries in the south Asian region. The lowest 40 per cent in Nepal, for example, received no more than 8.64 per cent of the total income. This is much lower than of India (16.0 per cent), Burma (16.5 per cent), Pakistan (17.5 per cent) and Sri Lanka (17 per cent) respectively. On the other hand, the highest 20 per cent in Nepal receive 59.88 per cent of total income. This is again higher than that of India (52.0 per cent), Burma (44.8 per cent), Pakistan (42 per cent) and Sri Lanka (46 per cent) respectively.[59/]

The relatively unfavourable data on income distribution in Nepal is partly a result of the fact that the national economy was under autocratic feudalism just thirty years ago. Over the years, attempts have been made to change to the feudal economy to a growth economy with a built-in concern for the distribution of the new wealth and income being generated in the nation. But, experiences of the last thirty years indicates that autocratic feudalism has simply given way to neo-feudalism, where new technology is accepted provided that it does not change the existing pattern of exploitation. Under such a set-up the absolute, level of exploitation will increase without any substantial change in its over-all structure. Thus, those who had economic and political power in the feudal set-up still remain powerful and maintain or increase the level of exploitation in alliance with the small emerging industrial class. In Nepal's case the situation becomes even more worrisome because, there are strong grounds to argue that profit under neo-feudalism is normally exported either to India or to overseas countries.

How long will the nation sustain the pattern that we have described above in the future? The issue is going to be crucial in the 1980s both for economic development and political order.

/Trade

59/ Holis Chenery, et al., Redistribution with Growth, Oxford University Press, 1974.

Trade

Nepal's traditional trade relation was with her nothern neighbour. It was quite important until the eighteenth century.[60] During those days Nepal via Kathmandu valley provides the safest trading route for the trans-Himalayan trade between India and Tibet.

A rapid shift in Nepal's traditional trade pattern in favour of the south started from the middle of the nineteenth century, for various important reasons. First, the British in India expanded their railway network all along Nepal's southern border during the last quarter of the nineteenth century. The expansion of the new facilities allowed the ruling class in Nepal to exploit the rich timber resources of the southern forests as a new source of income. The clearing of forests on the other hand, provided rich new agricultural land for cereal grain production for exports to India. Secondly, the new income from timber and grain exports led to a corresponding increase in imports of many items of consumption by the newly rich farmers, landlords and the members of the ruling oligarchy.[61] Third, increase in exports led to the growth of many towns in the Terai close to the railhead on the Indian side. These towns became a central place for providing goods and services to the people in the surrounding region. Finally, advances in technology had reduced the importance of the old trans-Himalayan route to Tibet via Kathmandu.

All the above four factors have helped to change Nepal's trading link decisively away from the north and in favour of the south. Basically this pattern continues up to the present, even though attempts are being made to diversify trade with third countries (i.e. countries other than India). In this context, the country has experimented with a number of trade promotion and diversification policies. Efforts are also being made to restore some of the old trading links with China on a mutually profitable basis.

Nepal's balance of trade has always shown a deficit and this trend has become even more remarkable since the oil crisis.

/Table 32

60/ S.J.B. Pasupati Rana "Trade" in Pasupati Rana and K.P. Malla (ed), Nepal in Perspective, CEDA, 1971.

61/ See Prakash Lohani, "Industrial Policy: The Problem Child of History and Planning in Nepal" in Pasupati Rana and K.P. Malla (ed), Nepal in Perspective, CEDA, 1971.

Table 32. Export-import trade of Nepal

(Rs in million)

Year	Exports	Imports	Deficit
1967/68	392	477	-85
1968/69	572	747	175
1969/70	489	864	375
1970/71	400	699	299
1971/72	-	-	
1972/73	-	-	
1973/74	-	-	
1974/75	889	1,814	925
1975/76	1,185	1,981	795
1976/77	1,164	2,008	844

Source: Quarterly Economic Bulletin, Nepal Rastra Bank, Mid-January 1976 and Mid-July 1977 to Mid-January 1978. Data for 1971/72, 1972/73 and 1973/74 is not available.

India is Nepal's major trading partner. Until 1962/63 98 per cent of Nepal's foreign trade was with India. In 1964, the government, in its bid to diversity trade introduced the EES (Export Entitlement Scheme) under which trdders could use part of the foreign currency earned from exports to third countries for importing various consumer goods inside Nepal. How much foreign currency a trader was allowed to retain for imports was dependent on the type of commodity exported.

The introduction of the EES did help to change the direction of trade to some degree. By 1968/69, Nepal's trade with India had decreased to 85 per cent. More recent position is as follows:

/Table 33

Table 33. Direction of trade

(Rs in million)

Year	Exports			Imports			Deficit		Share in total trade India
	India	others	total	India	others	total	India	others	
1974/75	746	143	889	1,475	339	1,814	729	196	.62
	(.84)	(.16)		(.81)	(.19)				
1975/76	893	292	1,185	1,227	754	1,981	334	462	.66
	(.75)	(.25)		(.61)	(.39)				
1976/77	779	385	1,164	1,343	665	2,008	564	280	.67
	(.58)	(.42)		(.66)	(.34)				

Source: Quarterly Economic Bulletin, Nepal Rastra Bank, Mid-July 1977 to Mid-January 1978.

The introduction of EES has helped to diversify Nepal's trade but it has also created many distortions in the economy. First, the introduction of EEC basically meant devaluation of Napali currency and the acceptance of multiple exchange rates. Second, it meant indirect protection to inefficient industries since the maximum foreign exchange bonus was awarded to industries that suffered the highest losses in the international market. Third, the success of EEC as an incentive mechanism for exports to hard currency countries depended on the type and quantity of goods that the government allowed the traders to import inside the country. Since the profit margin on luxury goods are high, traders insisted on importing such items. But, unrestricted import of luxury goods inside Nepal was against the government's declared policy of promoting thrift and austerity. Furthermore, such a policy would inevitably lead to the smuggling of imported goods inside Nepal and India, which provided a larger underground market for such items. This basic contradiction has led to a constant struggle between the government and the traders. In a "soft" state like Nepal, it would be no exaggeration to state that traders have been successful at the cost of formal governmental policies. Thus, various distortions in trading practices like over invoicing in exports under invoicing in imports and smuggling of luxury consumer

/goods

goods inside India have become a by-product of the export entitlement scheme. The government seemed either unable or unwilling to stop these practices. But in August 1977, over-invoicing of Napali carpets on a massive scale brought the whole range of issues before the public. Traders many of whom were Indians were found to be pricing carpets worth $US 5 per metre at prices as high as $US 500. The idea seems to have been to use accumulated foreign exchange balances in South-East Asian countries to import luxury goods legally inside Nepal with an eye towards the underground market for such goods in India. The magnitude of over-invoicing and the extent of public protest has shaken the otherwise nonchalant attitude of the government towards the whole scheme. A review of the scheme was finally undertaken and the EES was scrapped in early 1978, in favour of a "dual exchange rate" policy. Under the new policy there are two official rates. For governmental transactions and tourist trade, the exchange rate is about Rs 12 to a dollar. For a wide variety of other export items traders can get Rs 16 to a dollar. Simultaneously imports have been liberalized. Except a few restricted items traders will be allowed foreign, currency for imports without "any questions".

The effects of the new scheme on the volume and direction of trade is yet to be seen. It will probably increase trade volume with India. On the other hand liberal imports have not eliminated the possibility that this policy will be utilized by traders for importing goods with an eye towards the underground Indian market.

Regarding the type of goods traded, Nepal exports to India consists primarily of food grain and other crude materials. To countries other than India Nepal's main exports are jute and jute goods, curio goods and a few other crude materials like bristles, leather, etc.

Paddy constitutes over 60 per cent of exports to India. But the quantity of paddy available for exports has been steadily decreasing over the years from an estimted half a million tons in early 1960s to no more than 100,000 as of 1976/77.[62/] A slower rate of increase in food grain production as compared to population growth has gradually eroded the quantity available for exports. If this trend continues, Nepal may turn to be a net importer of food grains by the middle of 1980s.[63/] Similarly export of clarified butter, which is Nepal's

/another

62/ Economic Survey: 1977/78, Ministry of Finance, July 1978.

63/ Y.P. Pant and S.C. Jain, Long Term Planning for Agriculture in Nepal, Vikas Publication, 1972.

another major export food item has also shown a decreasing trend.[64/] [illegible] population in the hills, has forced many farmers to turn pasture land into agricultural land. This has decreased production. On the other hand, urbanization has increased internal consumption. Both these factors, have reduced the quantity available for exports.

To oversea countries Nepal's major export items are jute, and jute goods. But production of jute as of 1976/77 still remains below the production record of 57,000 tons in 1974/75. Similarly output of jute goods has generally shown a sluggish growth trend and has remained below the targets specified in the country plans.

On the structure Nepal's trade, the following table provides the relevant data.

Table 34. Structure of exports

(Rs in million)

Year	Total exports	Food and live animals		Crude materials inedible except fuels		Manufactured goods	
		Rs	%	Rs	%	Rs	%
1964/65	440	258	58	115	26	50	11
1965/66	375	184	49	115	30	64	17
1966/67	426	256	60	109	25	49	11
1967/68	392	201	51	103	26	78	19
1968/69	572	251	43	167	29	135	23
1969/70	489	296	60	120	24	47	09
1970/71							
1971/72							
1972/73							
1973/74							
1974/75	888	517	58	212	23	27	03
1975/76	1,185		67		18	104	09
1976/77	1,164		51		32	123	10

Source: Quarterly Economic Bulletin, Nepal Rastra Bank.

/The

64/ The Challenge for Nepal: Growth with Employment, Asian Regional Team for Employment Promotion, Bangkok, 1974.

The table above shows that Nepal remains a primary product exporting country, and no change in this trend can be observed over time. Trade promotion strategies like the export entitlement schemes have been able to diversify trade to some extent, but the structure of exports remains the same. Thus, export of manufactured goods was 11 per cent in 1964/1965, it has dropped down to 10 per cent by 1976/1977.

On the import side major items as of 1976/1977 are manufactured goods (40 per cent) food and live animals (12 per cent) chemicals and drugs (11 per cent), fuel and lubricants (12 per cent) and machinery and equipment (18 per cent). India is the major supplier of all the five items. It supplied in 1976/1977 75 per cent of total imported manufactured goods, 62 per cent of chemicals and drugs, 91 per cent of food and live animals, 46 per cent of fuel and lubricants and 46 per cent of all machineries and equipments.

We do not have any data on Nepal's external terms of trade. With countries other than India, it seems likely that the terms of trade has not been in Nepal's favour, jute is Nepal's major export to third countries. Increase in jute prices have been sluggish. But prices of all major commodities like, fuel, fertilizer, cement, and manufactured articles that Nepal imports have risen considerably since the oil cricis.

With India, the terms of trade was probably in Nepal's favour in the 1960s since the prices of paddy has been increasing in India. But this conclusion does not seem to hold valid for the 1970s. Since the last few years, India's food supply position has considerably improve and paddy export prices to India have declined.

For Nepal, trade deficit, has not meant a deficit in the balance payments so far. Nepal's international reserves have increased continuously over time. It stood at 145.3 millions at the end of the financial year 1976/1977.

There are basically, four reasons, for a surplus in the balance of payment. First, tourism as a source of foreign exchange has shown a healthy growth record. The number of tourist coming to Nepal doubled between December 1973 and

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December 1977 from 68,047 to 129,326. During the same period Nepal's foreign exchange earnings from tourism has increased from Rs 53.2 millions to 244.4 millions. Second remittances from Gorkha troops stained overseas has been a steady source of convertable currency. Income from this source was Rs 42.7 million in 1973/1974; in 1976/1977 it had increased to Rs 125.4. Third, foreign aid and loan has been steadily increasing over the years. This has helped to improve the over-all balance of payment. Finally, the government, has generally been unable to spend all the amount allocated in the foreign exchange budget. This has naturally helped to swell the foreign exchange reserves.

The question of Nepal's external trade sector being able to sustain a growth rate between six to seven per cent in GDP could now has examined. On the basic question of the volume of trade, the growth record so far has been highly irregular. To maintain a relatively high rate of growth in GDP as compared to the present level of 2 per cent, imports will have to rise rapidly. But it requires a similar increase in exports. Future exports prospects, however, do not seem bright. The country's supply of major export items like paddy, clearified butter and timber has been decreasing, over time and no new lines of exports either to India or to third countries have been developed to fill this gap. The supply position of traditional food exports, on the other hand, cannot be expected to increase unless a "big push" is launched successfully in the agricultural sector. No sign of such a push is yet visible in this sector.

Despite great efforts and planning the structure of Nepal's exports has not changed over time. A new dynamism in the export of light manufactured goods including processed food based on abundant labour supply and topographical considerations favouring horticulture has yet to take root in the country.

During the 1980s a growth rate in GDP to the tune of 5-6 per cent per annum will require an expansion in total exports in real terms of over 8 per cent. Exports of both traditional (i.e. cereal grain) as well as non-traditional items must increase rapidly. Viewed in this context the present surplus of foreign exchange, which is partly a result of a low growth rate in GDP and the government's inability to spend the budgeted amount is a reflection of Nepal's failure in economic growth rather than the strength

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of her export sector. But the strong reserve position, provides the government, a great deal of flexibility, at the present if it is determined to raise the level of investments to over 20 per cent. Success in this effort, on the other hand is bound to put pressure in foreign exchange resource position in the future. Thus, the necessity of an export orientated expansion to sustain the development effort becomes inevitable.

The inability of the Nepali economy to plan production with an export orientation can be a serious constraint to future economic growth. The solution to this problem cannot be considered in isolation of the over-all problem of resource mobilization in the nation. granted this, the following considerations are important for the future:

1. Until, new lines of exports are successful developed export of cereal grain and jute must receive priority. Thus, an increase in the growth rate of agricultural output to 5 per cent is the first and the most important factor in sustaining an expanding level of exports in the future.

2. Non-traditional exports must be developed rapidly. Because of the country's varied topography, horticultural and livestock products are the most promising items. An expansion of fruit, vegetable including vegetable seeds output in the hills and mountain region on commercial lines must receive urgent attention.

3. A policy package that is orientated towards encouraging exports orientation rather than import substitution industries requiring high level of protection, must be implemented. This may mean, for example, a liberal import policy, liberalization of banking laws for aggressive industrial finance, valuation of foreign exchange on the basis of demand and supply considerations, reduction in direct and indirect subsidies favouring capital intensive techniques, establishment of institutions engaged in export promotion, direct or indirect subsidies for enterprenuers engaged in new lines of exports like horticultural or light manufactured products and so on.

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PART III

RESPONSE CAPABILITY OF NEPAL'S INTERNAL SOCIO-POLITICAL ORDER

From our discussion so far, the possibility of Nepal attaining growth targets set out in Leontief's scenerio X for low income Asia in the 1980s does not seem probable. The main reason behind this conclusion is not necessarily the lack of resources, even though the ratio of investment to GDP still remains below 10 per cent. There is an interesting situation in the country where scarcity of resources exist simultaneously with idle investment seeking an outlet. The Provident Fund Corporation, for example, finds itself burdened with more than Rs 100 million and yet it has not been able to define an investment outlet. Similarly an increase in fixed deposit rate from 10 per cent to 16 per cent in April 28, 1975, to mobilize savings through the financial sector was claimed successful since total deposit in the banking system increased by about 36 per cent within a year (July 1975 - July 1976). Success in deposit mobilization however was not matched by a similar demand for investment funds with the result that banks remained burdened with liquid and near liquid assets. The profitability of banking system decreased and the Central Bank was soon forced to revise its policy and reduce deposit rate from 16 per cent to 13 per cent (February 12, 1977). Part of the reason for this hasty retreat was a lack of supporting measures on the part of the government and government supported institutions to sustain the new policy. Thus, even after interest rates were raised the government continued its policy of subsidizing the losses of public enterprises and providing guarantee for loands. Naturally, the whole concept of a rise in the price of capital acting as a check against its inefficient utilization of funds was not operational.

Looking at the planning experience in Nepal it is easy to observe a complete lack of a philosophical frame of reference for economic decisions. In operational terms there has been an absence of policy planning. Thus the inteilectual basis of a certain policy is not viewed as a part and parcel of a commonly accepted approach to issues of economic development. Using interest rate, for example as a mechanism of resource mobilization and allocation implies a given strategy that gives importance to market forces and assigns priority to profit calculations as a guide to investment decisions. But if this basic assumption is not understood or is not an accepted proposition in economic decisions, naturally, there are bound to be contradictions between the policies

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of the central bank and other government agencies. This is what happened in Nepal's experiment with high interest ratios.

Lack of policy planning in Nepal's economic decisions could also be viewed as the inability on the part of the decision makers to keep a distinction between a strategy and a policy. The confusion between these two concepts must undoubtedly be one of the chief characteristics of Nepal's economic decision making. Thus policy decisions tend to be designed to solve just the immediate problem; their relationship with the total whole tends to be neglected. This invariably leads to contradiction and confusion.

There are built-in mechanisms in Nepali decision making system that systematically tends to blur the vital distinction between a strategy and a policy. Identification of clear cut sectoral strategies like in agriculture or industry automatically fixes the boundary line in policy making. Consider, for example the question of promoting tourism in Nepal. A schematic representation of this problem in terms of objectives strategies and policies would be as follows:

Objectives

Increase earnings from tourism by say X per cent

Strategy

1. Priority to mountain tourism
2. Transit and cultural tourism as usual

Policies

Subsidies for mountain resorts	Development of infrastructure by Government in tourist resorts	Others

Policy Instruments

Tax holiday	Cash subsidy	Training subsidy	Others

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As the figure above indicates, a clear understanding of the strategy provides the basic guideline to policies and policy instruments. An exercise of this kind, on the other hand, reduces the flexibility of the decision maker to use policies for promoting sectional or vested interest with ease. For the neo-feudalistic landed, as well as commercial and industrial interests in Nepal, clarity in policy planning along these lines is a hindrance. There is therefore a built-in mechanism in the political system and the governmental decision making process so that the distinctions are blured. This makes it relatively easy to manipulate policies. It also explains why policies change frequently in the country creating a general atmosphere of uncertainty that is hardly conducive to private investments. Pursuing this line of reasoning one can see some reasons as to why banks remained burdened with liquidity after the rise in interest rates in 1975.

A classic example of the inability of the planners to distinguish between a development strategy and a policy is reflected the basic principles of the Sixth Plan itself. It is a collection of ad hoc policies because the over-all sectoral strategies are nowhere explicit. In agricultural for example, the document suggests a complete control of mechanization except for irrigation purposes. The question immediately arises: What sort of agricultural development strategy suggests such a policy statement? The document does not consider this question, and its conception of the role of mechanization in agriculture borders close to nonsense. Similarly in trade and industry, a consideration of strategy is totally lacking. Should the nation, for example, concentrate on industrial development orientated towards exports or should it continue its present policy of developing import substitution industries under foreign aid and keep it functioning by providing a high degree of protection? Of course, often times, the question need not imply that the alternatives are mutually exclusive. But the basic orientation of future development in the sector should be explicit since this is what an industrial development strategy is. Only when this is clear that one can think of a package of policies. To the extent that the strategy remains unclear, as in the preliminary Sixth Plan document the policies become general statement of intentions and provide little guidance for developing a set of policy instruments that are mutually consistent.

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A lack of policy planning is certainly not the only lacuna in Nepal's developmental efforts. The limits to sustain economic growth are in fact "political, social and institutional in character rather than physical".65/ In the 1980s all these three variables will be even more important than the purely physical ones.

The fundamental problem, internally, during the 1980s is going to be the evolution of an institutional mechanism, both economic and political, that can relate within the framework of an expanding economy. Politically Nepal has adopted the partyless Panchayat system that aims towards the creation of an exploitationless society, under the leadership of the king. The functioning of parties has been considered as a hindrance to national integration and the economic and social development of the country. Similarly, in the process of social change, class co-ordination is considered as one of the key concepts of the system.

In terms of political speeches, the masses are always the basic unit of analysis in Nepal. But, when it comes to the question of governmental choices in social and economic decisions, one observes critical weakness of the political system. Basically, the system fails to respond in accordance to its theoretical orientation towards the masses. Conceptionally, this lack of what could be called as response capability has to do both with survival and predictability. The "choice mechanism of the old days" are after all very much in the political arena. New groups, on the other hand, that aspire for power positions are not going to reject the choice mechanism of the "old order" since it is quite efficient in serving the interests of the few, that includes themselves. In this context, an institutional mechanism, that is capable of formulating and articulating the interest of the masses in the political decision system represents to a threat the existing stability conditions and poses an uncertain future. But, the present set of stability condition, cannot be viewed in a static context, since the demands being made upon the system are increasingly becoming complex and multi-dimensional. Ordinarily if a self-regulating mechanism to effect changes in the response capability of the system, is operational, the problem of instability and contradiction could be solved. But the nature of the partyless policy in Nepal has yet to overcome this problem. What this

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65/ Wassily Leontief, et al. The Future of World Economy, New York, Oxford University Press, 1977.

means is that social-political processes to control deviations from policies designed to achieve broader societal groals remain awfully inadequate and ineffective. Often the boundary lines relevant to decision on economic matters remains vaguely defined, and weak control mechanism at the political level allows even gross violation to go unchecked. In this context, the stress on a political philosophy that considers class co-ordination as one of its vital component means that, the evolving contradictions in the society have a tendency to remain suppressed. Various interest groups, both old and new are seen quick to take advantage of this situation and are able to manipulate the decision and choice mechanism in the government for their own benefit. Class co-ordination in such a setting becomes nothing more than the co-ordination of interests between land-lords, bureaucracy and the business.

There is no doubt than an increasing population a stagnant per capita growth rate and a gradual awareness among the conscious elements in the country about the magnitude of economic inequality is becoming a cause of strain on the political system. A political processes with a weak internal self-regulating mechanism is naturally finding it difficult to respond adequately to the new stresses. There is thus much talk of involving the masses in the process of economic development. But the real meaning of "involvement" in a mixed parochical cum subject political culture where the masses have always been seen as objects to be tought and guided in the correct path is yet to be seen. For to accept that even illiterate people can be organized to participate in the expansion and management of their collective wealth at the local level implies a completely new set of political values and a radical change in inputs from the environment to the political system. It is doubtful, if politics in Nepal is capable of accepting such basic changes in the social process. On the other hand, the performance of the economy so far and its projected future trend indicates that an increase in the response capability of the system will have to be considered primarily in political terms. Thus, for Nepal as far as her internal economic order is concerned, economics, despite the importance claimed by economist will certainly have to remain in the back seat during the 1980s.